FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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US money-makers take their skills to China, Page 24

World news

Boost for Kohl in regional elections

West Germany's opposition Social Democratic party (SPD) suffered a crushing defeat yesterday in important regional elections in the northern city of Hamburg.

Gains by the conservative Christian Democratic Union (CDU) gave Mr Helmut Kohl, the Chancellor and CDU chairman, another powerful boost in the campaign leading to the country's general elections on January 25.

Last night's results look likely to lead to complicated coalition negotiations between the SPD and CDU over forming a new government for the Hamburg city-state. Page 24

Tamils held

Several hundred Tamil militants were detained in the south Indian city of Madras and a large quantity of arms seized as Sri Lankan guerrillas predicted a co-ordinated push by New Delhi and Colombo to end the Tamil insurgency. Page 4

Atomic accord

An agreement between Cuba and Argentina calling for collaboration in the peaceful use of atomic energy, the first of its kind in Latin America, has been signed in Havana.

Britain defies boycott

Britain defied a west European boycott of ceremonies honouring South Africans killed in both world wars. Britain, the US and Taiwan were the only foreign countries represented at a ceremony in Johannesburg attended by President P. W. Botha.

Soweto gun battle

South African police fought a gun battle with black youths as the latest round of violence continued in the township of Soweto, Johannesburg. There were no injuries in the clash.

PLO pledge

The Palestine Liberation Organisation said it would continue its military operations against Israel despite a "successful" meeting with Israeli leftists in Romania.

Air suspect arrest

Japan arrested a man suspected of smuggling a grenade aboard the Thai Airways aircraft that made a forced landing last month after a mid-air explosion.

Israel denies kidnap

Israel admitted holding Mordechai Vanunu, said to have leaked details of the country's nuclear weapons, but denied kidnapping him in Britain. Page 4

Volcano victim

Vincenzo Monti, a 20-year-old Italian, fell to his death on Mount Etna, Sicily, after the remains of a lava flow crumbled beneath him.

Tankers attacked

Iraqi military aircraft were reported to have hit two supertankers, one with a Cyprus flag, the other Iranian, in a renewal of Gulf war raids on shipping.

Whaling boats sink

Two whaling boats sank in Reykjavik harbour, Iceland, and harbour officials said they were probably sabotaged. Iceland has been urged by the US to halt whaling.

Melilla vote

Moslem inhabitants of Spain's north African enclave of Melilla have voted to end all contacts with the government in Madrid, saying they have been deceived over promises of Spanish nationality.

Aquino's warning

Philippine President Corazon Aquino warned dissident military groups against staging a coup during her four-day visit to Japan which begins today. Page 6

Business summary

Hutton rebuffs $1.6bn offer

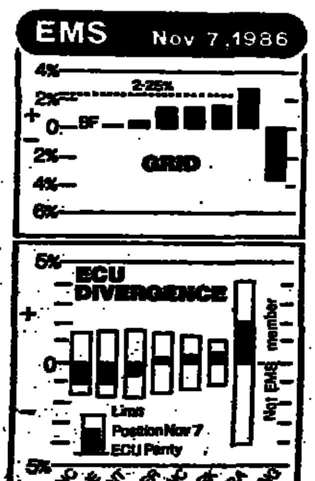
E F HUTTON, troubled Wall Street brokerage firm, has rebuffed a $1.6bn takeover approach by American Express, US financial services giant. Page 24

BURROUGHS, Detroit-based computer maker, is selling the bulk of its Memorex computer peripheral operations for $500m to an investor group which includes several senior Memorex executives. Page 25

WICKES, US building products and retail group, said it had agreed to acquire Collins & Aikman, major producer of textile products, for $1.16bn in a cash merger. Page 25

AMSTRAD'S next generation of personal computers is likely to be even cheaper than that recently launched through savings on key components. Page 9

EUROPEAN Monetary System: The Danish krone and the Belgian franc remained close together as the two weakest members of the system last week. However, there was no downward pressure and both currencies started to recover slowly against the D-Mark. This was possible because of the D-Mark's failure to regain recent losses against the US dollar. A stronger D-Mark usually places strain on the weaker members as funds are switched into the German currency to a greater extent than into other EMS currencies.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

UNCTAD, United Nations Conference on Trade and Development, is proposing a coordinated international effort to solve the crisis in world shipping. Page 24

ALEXANDER and Alexander, world's second largest insurance broker, yesterday reported a third quarter loss of $900,000 after taking a $16.8m charge from discontinued operations. Page 25

POWER of Canada, holding company of Montreal financier Mr Paul Desmarais, and its financial services arm have reported higher earnings of C$97.9m ($75.3m) for the third quarter. Page 28

GTE, US telecommunications and electrical equipment group, took action to thwart a possible unfriendly takeover bid by announcing a buy-back of up to 10m shares. Page 28

VIRGIN GROUP plans to become the leading UK-based international media and entertainment group, the prospectus for its offer-for-sale, published today, says.

DUTA, publicly listed property company controlled by Datuk Yap Yong Seng, a Malaysian businessman, has been placed under receivership. Page 25

DAVY, UK engineering contractor, is to build a $200m chemical plant in the US for Standard Oil. Page 10

Netherlands on the alert as Rhine pollution spreads

BY DAVID MARSH IN BONN AND LAURA RAUN IN AMSTERDAM

WEST GERMANY yesterday stepped up its calls for damages from Switzerland as a wave of pollution caused by last weekend's fire at the Sandoz chemical company in Basle spread down the Rhine.

Meanwhile, the Netherlands moved swiftly yesterday to counter the effects of the toxic chemicals being washed down one of Western Europe's greatest rivers.

The accident, which has killed several hundreds of thousands of fish and eels in the Rhine and prompted emergency procedures to safeguard municipal water supplies, is emerging as one of Europe's most serious environmental disasters of recent years.

It seems likely to increase further general concern over international control of environmental damage. This has already become a significant issue in European public opinion following the Chernobyl nuclear reactor disaster in the Soviet Union.

The question of compensation for damage caused by poisonous waste in the Rhine is being discussed between the West German Government and the Rhine-side states which have responsibility for environmental issues. The states of Rhineland Palatinate, Baden-Württemberg and Hesse, however, made clear at the weekend their intention to press for damages.

West Germany's opposition Social Democratic Party (SPD) yesterday criticised Mr Walter Wallmann, the Minister for Environment and Reactor Safety, for what it claimed was his failure to inform the public of the full consequences.

Mr Wallmann has called a meeting today of the Rhine protection commission, grouping federal and state representatives, for today to discuss the economic and environmental costs of the accident.

The Federal Government has already accused Switzerland of failing to alert neighbouring countries to the extent of damage caused by the November 1 fire. The "second wave" of pollution travelling down river yesterday consisted of a 70km stream containing several thousand litres of mercury wastes leaked into the river at the Sandoz works at the end of last week.

An internal report of the Association of German Chemical Indus-

Continued on Page 24

EEC set to agree arms sales ban against Syrians

BY QUENTIN PEEL IN BRUSSELS

AT LEAST 11 of the 12 member states of the EEC are set today to agree on a four-part package of actions against Syria, including a ban on armes sales, in support of Britain's decision to break off diplomatic relations last month.

The measures are expected to be approved by the Community foreign ministers meeting in London, following their failure to agree on any concerted action at their last meeting in Luxembourg and subsequent high-level negotiations among senior officials last week in Vienna.

The single member state still holding out against the package, and indeed any measures to isolate Syria, is Greece. But British officials are hoping to persuade Athens to agree. However, the measures seem certain to be taken by the 11, regardless of the Greek attitude.

Mr Helmut Kohl, the West German Chancellor, and Mr Jacques Chirac, the French Prime Minister, yesterday held out the possibility that EEC foreign ministers' meeting today would decide a joint line to intensify action against Syria over international terrorism.

After a lunchtime meeting at Mr Kohl's home near Ludwigshafen on the Rhine, Mr Kohl said the foreign minister's session was likely to find a "sensible solution" to back up Britain in the diplomatic crisis over Damascus.

Mr Chirac said he believed EEC solidarity over the affair should be "possible" at today's gathering.

The measures against Syria are a direct response to British evidence of Syrian involvement in the attempted bombing of an Israeli El Al airliner at Heathrow airport last April, a crime for which Jordanian Nezar Hindawi was sentenced last month to 45 years' imprisonment.

Details of the implementation of the four measures have to be finalised at today's meeting. They still fall short of the full range proposed by Sir Geoffrey Howe, the British Foreign Secretary, at the Luxembourg meeting.

They include: a ban on arms sales; ending high-level visits between EEC countries and Syria; tighter restrictions on activities of Syrian embassies in the Community – as yet unspecified; and tighter security and surveillance of Syrian Arab Airlines.

In addition to those measures, the British Government has promised to veto any renewal of the current EEC financial aid for Syria, which expires at the end of the month.

Successful agreement on the package at today's meeting should repair some of the damage done by Sir Geoffrey's abortive effort in Luxembourg where he was accused by other member states of trying to rush them into action without adequate preparation.

The ministers did agree on that occasion on a statement expressing understanding and support for the British action in severing its diplomatic relations with Damascus – except for Greece, which rejected the evidence of Syrian involvement in the Hindawi case.

They also promised not to accredit Syrian diplomats expelled from London to any Syrian embassy in their own capitals.

Other measures on the table in Luxembourg included visa restrictions on Syrian nationals and the recall of EEC ambassadors for consultations. The latter gesture has only been carried out by Belgium of the EEC members – although Canada and the US both did so.

British officials insisted yesterday that the row in Paris over alleged remarks by Mr Chirac in an interview with the Washington Times – quoting West German Government suspicions that the bomb plot at Heathrow was actually engineered by Mossad, the Israeli secret service – would not affect today's meeting. In spite of reports in the French press about impending arms sales to Syria, France was ready even in Luxembourg to agree on the proposed ban on such contracts.

France and West Germany are both understood to have assured the Foreign Office that they accept the British evidence of Syrian involvement. However they are opposed to recalling their ambassadors as are Spain and Greece.

The foreign ministers' meeting will also consider the whole range of East-West relations in the wake of the Reagan-Gorbachev summit at Reykjavik, and last week's abortive talks between the two superpowers in Vienna.

Chirac row, Page 24

Lawson ready to back pound with rates rise

BY PETER RIDDELL AND JANET BUSH IN LONDON

MR NIGEL LAWSON, the UK Chancellor of the Exchequer, does not want to see sterling going any lower and would be prepared to raise interest rates again if there is renewed pressure against the pound.

Mr Lawson sought during a television interview yesterday to dampen election speculation and reassure financial markets about the Government's fiscal and monetary prudence in the wake of the large increases in public spending announced on Thursday.

After arguing that the foreign exchange markets had already taken into account the forecast current account deficit next year, Mr Lawson claimed that sterling might come under pressure for political reasons with fears of the impact of a Labour Government. "That is something which I have to contend with. It may require interest rates to rise and if so, so be it. If there is pressure on sterling, then that is how we have responded in the past and that is how we would have to respond in the future."

"Certainly I have no wish to see sterling go any lower. There had to be a fall in the exchange rate in order to adjust for the very sharp fall in the oil price. That inevitably had to occur and has now happened."

This goes further than his comment in his speech three weeks ago when, similarly relating sterling to the oil price, he confined himself to the statement that there were "clearly limits to the necessary and desirable extent of that fall."

Mr Lawson also sought to cool the growing speculation about an early general election. This has been further fuelled by a Market and Opinion Research International poll putting the Conservatives at 40 per cent, ahead of Labour at 39 per cent and the SDP/Liberal Alliance at 18 per cent. This is the fourth recent poll putting the Tories in the lead.

The Chancellor said he was certain there was "no quick dash to the country in mind." He later added "I am quite content to go the whole way until 1988 and indeed it would have the advantage of giving me an extra budget in this parliament."

The same themes will be reinforced this evening by the Prime Minister in her annual address to the Lord Mayor's Banquet in the City of London. Much of the speech, which Mrs Thatcher was drafting yesterday, will be about the economy and she is also expected, either directly or indirectly, to dampen election speculation.

Mrs Thatcher has made it known that she wants to serve at least four years from her 1983 victory before seeking re-election. This means an earliest possible date of mid-June and most senior ministers still favour autumn next year.

However, many City commentators, opposition leaders, and Conservative MPs believe that the economic risks of delay will result in an earlier election.

Mr Lawson also attacked criticism that monetary policy had become too loose. He said there was an inconsistency between saying "there is too much credit, too much money sloshing around the economy – I don't think there is – and saying at the same time that interest rates are too high."

Apart from continued reaction to the autumn economic statement the other main political interest this week will be in the Queen's Speech on Wednesday outlining the Government's legislative programme and the Knowsley North local election on Thursday, which Labour is expected to win by a comfortable margin.

Editorial Comment, Page 22

Mubarak names new PM amid fears over economy

By Tony Walker in Cairo

PRESIDENT Hosni Mubarak of Egypt yesterday appointed a new Prime Minister in a surprise announcement that reflects his disquiet over a continuing deterioration in the Egyptian economy. There have recently been worrying increases in prices and little progress on basic economic reform.

Dr Atef Sidki, a 56-year-old economist who has not previously held political office, becomes Egypt's fourth Prime Minister in five years at a time when the country is engaged in sensitive talks with the International Monetary Fund (IMF) on emergency relief. His two predecessors served for about a year each.

While there have been persistent rumours about a possible Cabinet reshuffle, the sudden departure of Dr Ali Lutfi, the outgoing Prime Minister, came as a surprise.

In his letter appointing Dr Sidki, Mr Mubarak implied criticism of the outgoing administration. He said Egypt's economic situation "still needs more and higher rates of accomplishment and progress."

Egypt's President hoped the new government would "respond better to the aspirations and requests of Egyptians."

The appointment of Dr Sidki coincides with uncertainty in Egypt's financial markets over the activities of Islamic investment companies.

Reports are circulating in Cairo of a run on one of these companies. The sector itself, which has grown fast outside effective official control, is said to be under investigation by central banking authorities.

A foreign banker said the sudden change in government was unlikely to add to Western confidence in Egypt which is burdened by foreign debts of $38.6bn and a worrying build-up of arrears on debt payments which reached $4.3bn by the middle of this year.

Dr Lutfi, the 50-year-old technocrat appointed Prime Minister 14 months ago, said in his resignation letter: "We find it is our duty to announce that the public interest calls for giving a chance to another group of Egypt's children to continue the march . . ."

It was not immediately clear why Dr. Lutfi resigned. Associates said that he had been unhappy at difficulties he faced in establishing authority over the cabinet which includes powerful elements from previous administrations.

Surprise is being expressed at the choice of the relatively inexperienced Dr Sidki as Prime Minister at a critical time for Egypt.

White House under fire over weapons for Iran

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

THE WHITE HOUSE was subjected to a barrage of criticism yesterday over its handling of reports that it had sought the release of U.S. hostages held in Lebanon by supplying military equipment to Iran.

Despite charges from the political opposition that the credibility of US foreign policy was being undermined, the White House still declined to comment beyond earlier statements that disclosures put at risk efforts to free the hostages.

Mr Donald Regan, the White House chief of staff, said in a television interview yesterday that the news media did "not realise how much (its reporting) puts the remaining hostages in jeopardy." He said the White House would not give a full account of its efforts to Congress or the American people until "all the hostages are out."

Amid authoritative reports that Mr George Shultz, the US Secretary of State, might consider the issue as one of possible resignation, the White House stance was threatening to become a major confrontation on the direction of foreign policy between the White House and the newly elected Democratic majority in the Senate.

Asked about reports that Mr Shultz and Mr Caspar Weinberger, the US Defence Secretary, were furious about the White House-led efforts to gain the hostages' release, Mr Regan said: "I have never seen them angry over what we are doing for the hostages. I simply do not believe those stories but I will leave it to them to answer any direct question you might have."

So far, however, its refusal to disclose details of its efforts to secure the release of American hostages is merely fuelling speculation about covert US activities.

Senator Robert Byrd, expected to be elected majority leader of the upper house in succession to Republican Senator Robert Dole, described the Administration's policy on the release of the hostages as "a major blunder".

He maintained yesterday that the policy undermined the credibility of US foreign policy at home and abroad. Senator Dole has also been critical of making any "payoffs for hostages" but he indicated that he did not know whether the present reports involving Iran were true.

Senator Richard Lugar, chairman of the Senate foreign relations committee, avoided direct criticism of the White House but said he believed that Mr Shultz ought to be involved in the formulation of American foreign policy.

The White House decision to stonewall in the face of questions on its alleged dealing with Iran is leading to allegations of a cover-up. Senator Byrd said yesterday that if, as has been claimed, the White House was using the National Security council to run covert operations to evade laws requiring that agencies such as the Central Intelligence Agency report to Congress, then "perhaps the laws ought to be changed."

Dr Henry Kissinger, a former US Secretary of State, argued yesterday that providing arms to Iran in return for its help in releasing hostages merely made it more likely that more hostages would be taken.

It is argued that it is not in US strategic interests for Iran to win its war with Iraq but that an American decision to supply arms or spare parts to Iran could have this effect depending on the scale of activity.

Senator Patrick Leahy, the Democrat who is vice-chairman of the Senate intelligence committee, was reported yesterday as saying: "There is nothing wrong with secret diplomacy, but if you are doing it as a way to get around specific laws, there is everything wrong. The basic question is whether they are using the National Security Council to get around American law."

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OVERSEAS NEWS

Neue Heimat faces fresh crisis

BY ANDREW FISHER IN FRANKFURT

OPINION IS hardening among West German banks that the floundering Neue Heimat housing group sold by trade unions to a Berlin bakery owner for a nominal DM 1, cannot be kept going for much longer in its present form.

A meeting of the 15 main creditor banks today could help decide its fate, though most appear keen that any solution should stop short of bankruptcy. Neue Heimat owes German and foreign banks and other creditors about DM 176bn (£5.77bn).

Bankruptcy would lead to forced sales of homes and push down property prices. Instead, some banks are arguing for an orderly winding up under German liquidation, or *Vergleich* (composition), proceedings. These buy time by holding off creditors and permitting the gradual sale of assets.

Mr Horst Schiesser, the Berlin businessman who bought the scandal and debt-ridden group, has tried to persuade banks to give him time to turn it round.

He won some breathing space last month with an agreement by the main banks to continue a moratorium on debt repayments, already agreed with the previous owners, until the end of the year.

But some banks have called in their loans and a turnround of Neue Heimat is likely to require an extension of this agreement.

Further discussions among the banks, which have set up a special working group to keep all 150 creditor banks and financial institutions informed, have brought a growing conviction that Neue Heimat cannot be saved.

Although the unions hoped to rid themselves of an embarrassing problem, the sale concentrated public attention on the company's murky past and lax management. Mr Schiesser's own business affairs and associates have also come under increasingly critical scrutiny.

The standing of the unions has been most tarnished by the affair. The future of Mr Ernst Breit, head of the German trade union federation (DGB), has been called into question, as has that of Mr Alfons Lappas, who was imprisoned briefly for refusing to talk to a parliamentary commission about Neue Heimat.

The union movement has agreed to sell Bank fuer Gemeinwirtschaft, the fifth biggest German non-state bank, to the Aachener und Muenchener insurance company, because of the financial impact of Neue Heimat's problems.

Mr Lappas is expected to step down shortly as head of BGAG, which owned Neue Heimat on the unions' behalf.

Whatever happens to the housing group and whether or not banks agree to extend the debt moratorium beyond 1986, the post-war concept of *Gemeinwirtschaft*, or capitalism with a socialist flavour, has been shattered.

Transport ministers in search for compromise on air fares

BY TIM DICKSON IN BRUSSELS

THE British Government's aim to force down European air fares through greater competition among airlines hinges on a crucial meeting of EEC transport ministers starting in Brussels today.

Britain claims that consumers would begin to feel the benefits next year if member states could agree on its new compromise proposals for more liberalisation.

Mr John Moore, Britain's Transport Secretary and chairman of the Transport Council, however, faces an uphill struggle since several countries are clearly reluctant to approve Britain's moderately reformist package. Much will depend on France and Germany, for example, whose limited enthusiasm appears to have been waning in recent weeks.

Even if ministers can adopt a common approach their actions are bound to be fiercely criticised by consumer groups and treated with at least a degree of scepticism by the European Commission. Following a firm prod from the European Court of Justice in April, it was the commission which initiated much more radical proposals in the summer.

Britain says these proposals had to be watered down in the interests of finding a consensus but that they still represent a worthwhile "first step." The Bureau of European Consumer Unions does not share this optimism, claiming that the public has been "badly misled," and said last week that no agreement was better than the one now on the table.

Moves towards liberalising airline regulations — a system described last week by the EEC's Competition Commissioner Mr Peter Sutherland as "uniquely anti-competitive"— have focused on three major areas: air fares, capacity sharing and market access.

● There are many views on the conditions under which airlines can fix discount and deep discount fares without needing authorisation from governments. The proposal tabled by Britain today is that a discount fare could go as low as 65 per cent of the normal economy fare, and a deep discount fare to 45 per cent of the normal fare.

● As for capacity sharing, there is general agreement that the share of seats on a particular route could move to a 45/55 split in the first two years, but Britain's idea of 60/40 in the third year is likely to prove divisive.

The French and the Germans among others may argue for a slower pace of reform while the enthusiastically liberal Dutch and Irish want to abandon seat-sharing arrangements altogether.

● On market access Britain wants to end the old idea that EEC routes should be restricted to one carrier per country.

EUROPE's leading motor manufacturers have called on the EEC to take a tough line against state aid to overseas, especially Japanese, competitors setting up factories in the community, writes William Dawkins in Brussels.

A white paper by the Committee of Common Market Automobile Constructors, timed to coincide with today's meeting of transport ministers, says "Any encouragement towards inward investment by new overseas competitors on terms not available to established EEC manufacturers can only have a negative influence" on European producers' attempts to improve their competitiveness.

Sir John Egan, the committee's president, presented the paper to the European Commission last week in what appears to be a direct attack onthe the UK Government's assistance for the Nissan factory, which recently opened in Washington, Tyne and Wear.

The committee argued that Japanese investmen in new capacity in Europe should only be accepted if it involves a very high level of integration with local industry.

Comecon party leaders arrive in Moscow

PARTY LEADERS from the 10-nation Communist trade group Comecon arrived in Moscow yesterday for a working meeting, the Soviet news agency Tass reported, Reuter writes from Moscow.

The brief statement was the first official Soviet confirmation that the meeting was taking place. The party leaders have met very unfrequently on Comecon business.

East European sources here said on Friday that a two-day meeting of Moscow's allies would open today, partly to review the international situation since Mr Mikhail Gorbachev, the Soviet leader, met in Iceland last month with President Ronald Reagan of the US.

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OVERSEAS NEWS

Guerrillas' threat hangs over Peru poll

By Barbara Durr in Lima

PERUVIANS go to the polls today to elect nearly 2,000 provincial and district mayors for the next three years.

The ruling party, Apra (American Popular Revolutionary Alliance), will be testing whether President Alan Garcia's popularity can make it the undisputed leading political force.

Soldiers will ring 45,000 polling booths because of threats by radical Maoist Sendero Luminoso (Shining Path) rebels to disrupt the poll.

At the weekend, in the central city of Huancayo, four hooded rebels shot dead an Apra council candidate as she was broadcasting a political news programme, police said.

Apra's main competitor in the election is the left-wing coalition United Left (UL), led by the Mayor of Lima, Mr Alfonso Barrantes Lingan.

Mr Barrantes, Peru's first Marxist mayor, is fighting a tough battle for re-election. Not only has Apra mounted a vigorous campaign in Lima, but the right-wing Popular Christian Party has stood its national leader, Mr Luis Bedoya Reyes, as candidate.

The three-way race in metropolitan Lima, where one-third of the country's population is concentrated, is considered to be a guide to the country's political direction.

A victory for Mr Bedoya would provide the biggest upset. Both Apra and UL had believed the right's political future evaporated with its crushing defeat in the 1985 presidential election. One recent opinion poll, however, put Mr Bedoya ahead.

If Mr Barrantes wins again, he is expected to purge his coalition of its more radical left elements and set his sights on the next presidential race in 1990. He came second in the presidential contest last year.

Although it is contrary to his party's interests, Mr Garcia is widely believed to favour a victory in Lima for the United Left leader. Mr Barrantes, to the ire of his extreme left colleagues, has lead a mild-mannered opposition and became a friend of the president.

Apra's candidate in Lima, M Jorge del Castillo, is a relative political novice, with little personality. A victory for him would be a triumph for Apra's political machine and a testimony on how long Mr Garcia's electoral coat tails are.

Apra, a nationalist hybrid of populism and democratic socialism, is expected to poll the most votes in Peru's 26 departments. It has stood more candidates than any other party, but its margins are predicted to be narrowed by the United Left.

Lifting the veil on covert action

Lionel Barber in Washington on the Reagan Administration's liking for undercover operations

BEHIND the bizarre mission of President Ronald Reagan's former National Security Adviser Mr Robert McFarlane to Iran lies a running theme in Mr Reagan's foreign policy: the love of undercover operations.

For all the half-denials in Washington, there is little doubt that the McFarlane mission fits into a pattern of covert operations set up soon after President Reagan took office in 1981.

It takes its inspiration largely, but not solely, from what has become known as the "Reagan doctrine": US military and financial support for anti-Communist rebels in countries such as Angola, Afghanistan and Nicaragua.

The Reagan Administration's activities have largely escaped public scrutiny through Congress, thanks to the Republican-controlled Senate's unwillingness to delve too deeply. That is likely to change now that the Democrats are back in control following their victory last week in the mid-term elections.

Full details of the reported arms shipments to Iran in return for Tehran helping to secure the release of American hostages held in Lebanon have yet to emerge. Yet it is possible to draw some parallels between the Iranian operation and the effort to provide secret military advice and arms to the Contra rebels fighting the leftist Sandinista Government in Nicaragua.

The link begins with two men who figure largely in both operations: Mr McFarlane, a former Marine, who resigned last December as President Reagan's National Security adviser, and Lt Col Oliver North, a serving Marine and close friend of Mr McFarlane who is currently a senior member of the National Security staff in the White House.

It was Mr McFarlane who in early 1984 secured President Reagan's approval for a "private aid network" to help the Contra rebels, a proposal developed by Lt Col North in order to evade a ban on US aid imposed by Congress.

The ban followed the disclosure that the US Central Intelligence Agency (CIA) had directed the mining of Nicaragua's harbours and then told the Contras to claim public credit for the operations. Congress, through its oversight committees, learnt of these covert operations only belatedly and the ensuing controversy led directly to the cut-off of CIA aid.

This was a severe blow to the Reagan Administration. The Contras, described by the President as "freedom fighters," faced a losing battle against the better-trained and better-equipped Sandinista troops (helped by supplies from the Soviet Union).

The private aid network grew out of the desire to skirt the legal restrictions on US aid to the Contras. Lt Col North, working with other US officials in the Pentagon and State Department, made contact through intermediaries with a string of former CIA employees.

A retired army Major General John K. Singlaub, whose intelligence experience dates back to the Second World War, was recruited to organise fund-raising and provide military advice.

According to Mr Robert Parry, an Associated Press agency reporter who has followed the story closely, the Contra aid programme was a classic covert operation "with deniability built in for the White House at every level."

The crash of an arms-laden transport aircraft in southern Nicaragua last month exposed the operation. The sole survivor, Mr Eugene Hasenfus, was captured by the Sandinistas and put on trial, having made and then retracted claims that he was working for the CIA.

Mr McFarlane has claimed that the spirit and letter of the Congressional ban on Contra aid was observed by the Administration but the leak of Lt-Col North's involvement in the summer of 1985 suggested that some US officials had their doubts.

These doubts are already surfacing in the other covert operation in which Lt-Col North and Mr McFarlane now appear to have figured: the arms-for-hostages deal between the US and Iran.

The key difference between the Nicaraguan effort and the Iran operation is that the latter was essentially a White House affair, co-ordinated through the National Security Council. High-ranking State Department officials do not appear to have been informed and the US Secretary of State, Mr George Shultz, and the US Defence Secretary, Mr Caspar Weinberger had severe doubts.

The problem centred on what was publicly declared US Government policy; no hostage deals with terrorists or governments which sponsor terrorism, and no arms supplies to Iran.

The US has pledged neutrality in the Iran-Iraq war and has imposed an arms embargo against Iran since 1979, following the takeover of the US Embassy and its diplomats as hostages in Tehran by Moslem extremists.

Against this was set the desire to secure the release of at least seven American hostages in Lebanon. In the longer term, it was argued that the US should promote ties with Iranian military and political leaders jockeying for power under the ageing leader, Ayatollah Khomeini.

Conventional diplomacy, through the State Department, was cast aside and replaced by covert operations, co-ordinated by the White House.

This should not be seen as a purely Reagan phenomenon. Other US leaders such as President Richard Nixon used the National Security Council as a way of side-stepping the rest of the US bureaucracy and avoiding leaks.

George Schultz: harboured grave doubts

Kennedy in Senate challenge to Reagan on 'neglect of needy'

BY STEWART FLEMING, US EDITOR IN WASHINGTON

SENATOR Edward Kennedy, the 54-year-old liberal Democrat from Massachusetts, has announced that he will take over the chairmanship of the Senate labour and human resources committee, and has promised to challenge the Reagan Administration's "shameful recent trend of neglect for the needy."

Senator Kennedy's decision clears the way for prospective Democratic presidential candidate Senator Joseph Biden to become chairman of the judiciary committee. Senator Biden, who is also seen as leaning to the liberal wing of the party, will make it more difficult for President Reagan to appoint ideological conservatives to the Federal Courts since such appointments must be processed through the judiciary committee and approved by the full Senate.

As a result of last week's victory in the mid-term elections, the Democratic Party now has a 55-45 majority in the US Senate, giving it the right to appoint Democrats as chairmen of committees which oversee legislative proposals, hold hearings into administration policy and are the first stage in the process of approving many appointments by the executive branch of government, including the appointment of Federal Reserve board governors.

Political analysts observe that of the 17 key senate committees, nine seem likely to be chaired by senators from the right wing of the party.

Senators from the south of the US such as Senator Sam Nunn of Georgia and Senator Lloyd Bentsen of Texas in particular are expected to have a far-reaching impact on the policy agenda which Senate Democrats will be drawing up.

The conservative influence of southern Democrats could, it is argued, move the party more towards the centre on many issues.

Senator Kennedy and Senator Biden, however, will be able to speak out strongly on behalf of organised labour and minorities, traditional core groups in the Democratic Party coalition.

Democrats are also emphasising the importance of education in improving the competitiveness of American industry. Senator Kennedy, announcing his decision in Boston over the weekend, stressed the importance he attaches to education.

"I welcome the opportunity to participate in creating a new agenda for social progress in America," he said.

Mr Kennedy, because of his seniority—he was first elected to Congress in 1962—could have chosen to chair either the labour or judiciary committees. He said that he had chosen labour because both his brothers, former President John F. Kennedy and Robert Kennedy served on the labour committee which deals with issues "my family has been involved in since they came to Congress."

Canada reforms medicines law

BY BERNARD SIMON IN TORONTO

CANADA IS to introduce legislation modifying a controversial system of compulsory licensing of brand-name medicines after a compromise between multinational pharmaceutical companies and generic drug makers.

In terms of draft amendments to the Patent Act, brand-name manufacturers will have seven years of patent protection before having their medicines copied by the generic companies.

The time will be extended to 10 years if the generic manufacturers import the fine chemical ingredients for products.

The licensing system, designed to hold down domestic medicine prices, has been an important irritant in Canada's commercial relations with the US and EEC since it was introduced in 1969.

Multinational drug companies have complained that it provides inadequate patent protection, discourages research and has enabled generic manufacturers to compete unfairly in export markets. Patent protection on pharmaceuticals has been as short as three or four years, compared with the 17 years provided on other products.

In return for greater protection, the brand-name producers have promised to increase research and development spending from 4.9 per cent of sales to 10 per cent over the next 10 years. Three companies, Upjohn, Ortho and Parke-Davis, last Friday announced investment projects totalling C$100m (£50.5m).

Consumer groups and the parliamentary opposition have vowed to fight the proposals, arguing that they will lead to higher medicine prices. To meet these objections, the Government proposes to set up a prices review board to ensure they do not rise faster than the inflation rate.

World Economic Indicators

FOREIGN EXCHANGE RESERVES ($m)

	Sept '86	Aug '86	July '86	Sept '85
US	16,785	16,810	16,147	8,671
UK	15,244	11,667	11,676	8,187
West Germany	43,195	40,960	39,607	37,556
Italy	17,546	18,734	19,084	18,410
Japan	36,956	36,646	33,778	23,106
Netherlands	10,135	10,590	10,238	8,923
Belgium	4,434	4,590	4,857	3,800
	Aug '86	July '86	June '86	Aug '85
France	31,603	29,628	32,984	20,536

Source: IMF

BRITISH-BORNEO PETROLEUM SYNDICATE, P.L.C.

INTERIM REPORT FOR THE HALF YEAR TO 30th SEPTEMBER 1986

At a meeting of the Board of British-Borneo Petroleum Syndicate, P.L.C. held today it was resolved to pay an interim dividend of 7.0p (1985/86—6.0p) per stock unit. In the hands of a United Kingdom Stockholder this interim dividend is equivalent, with the applicable tax credit, to 9.8592p (1985/86—8.5714p).

The dividend will be paid on 19th December 1986 to stockholders registered at the close of business on 20th November 1986.

The unaudited results, based on historic costs, for the half year to 30th September 1986 are as follows:

	Half-year to 30th Sptember 1986	1985	Year to 31st March 1986
Profit on dealing activities	£55,241	£70,121	£657,962
Short Term Interest receivable and other income	76,481	52,971	117,897
Income from Investments	858,708	864,068	1,427,408
Income from Oil and Gas Producing Properties	1,321	24,072	52,076
Exchange Profit/(loss) on Currency Conversions	4,274	(37,685)	(45,896)
	983,025	973,547	2,209,447
Amortisation of U.S. Oil and Gas Producing Properties	(16,616)	(16,600)	(45,284)
Administration Expenses	(64,850)	(57,906)	(115,995)
Consultants Fees	(3,993)	(9,922)	(30,888)
Interest Payable	(10,425)	(69,219)	(107,659)
Exploration Expenditure in Canada	(1,420)	(1,325)	(2,498)
Profit on ordinary activities before taxation	890,721	818,575	1,907,173
Taxation	(264,432)	(262,066)	(668,249)
Distributable Profits	626,289	556,509	1,238,924
Dividends	(315,000)	(270,000)	(900,000)
	£311,289	£286,509	£338,924
Earnings per Stock Unit	13.9p	12.4p	27.5p

Profit on dealing activities in the half year to 30th September 1986 includes unrealised losses of £49,500 (½ year to 30.9.85—£84,071).

The activities of the Group continue to be in investment holding and dealing, and also in oil and gas production in the U.S.A.

The company's investments in Shell and B.P. have performed well and the directors expect to be able to show improved results for the full year, compared with 1985/86.

Net Assets of the Company and its Subsidiaries at 31st March and 30th September 1986, were as follows:

	30th September 1986 (Unaudited)		31st March 1986 (Audited)	
Fixed Assets				
Tangible Assets		£151,305		£167,858
Oil and Gas Interests		599,475		602,603
Quoted Investments held by Subsidiary				
		750,780		770,461
Current Assets				
Quoted Investments	1,594,836		1,872,933	
Unquoted Investments	74,250		123,750	
Debtors	492,882		540,591	
Cash at bank	1,300,411		1,408,411	
	3,462,379		3,945,685	
Creditors (falling due within one year)	644,929		1,458,252	
Net Current Assets		2,817,450		2,487,433
		£3,568,230		£3,257,894

The market value of the quoted Investments shown above, under fixed assets and current assets, was £20,451,758 at 30th September 1986 and £18,509,393 at 31st March 1986 showing an unrealised appreciation of £18,257,447 and £16,033,857 respectively.

The above financial information does not amount to full accounts within the meaning of the Companies Act 1985. The results for the year to 31st March 1986 have been extracted from the full accounts which received an unqualified auditors' report and have been filed with the Registrar of Companies.

Copies of this Announcement are being sent to all stockholders and copies may be obtained from the Secretaries at the Registered Office.

By Order of the Board
RUSSELL LIMEBEER
Secretaries

Registered Office:
Pembroke House,
40 City Road,
London EC1Y 2AD

6th November 1986

Pricing committee of Opec to meet

By Roger Matthews

THE PRICING committee of the Organisation of Oil Exporting Countries is to meet in Ecuador before the end of this week, it was announced in Kuwait yesterday.

The main task for the committee, comprised of Kuwait, Ecuador and Libya, will be to consider a strategy for returning to a fixed market price. Mr Hisham Nazer, the new Saudi Oil Minister, said after the sacking of Sheikh Ahmed Zaki Yamani at the end of last month that the target should be $18 a barrel.

Opec set up the three-member pricing committee during its 17-day meeting in October. Under its terms of reference any other Opec member can sit in on its meeting.

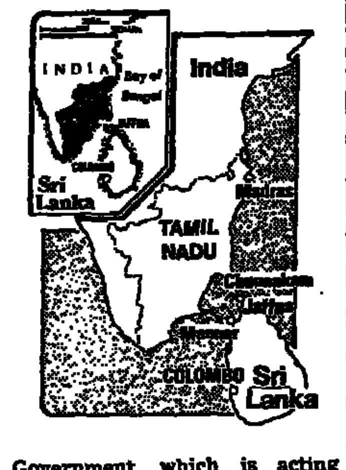
There was speculation last week during the summit meeting of the Gulf Co-operation Council that the pricing committee could turn into a full ministerial conference.

However, Saudi Arabia is anxious for the fullest consultation between members before going into a full conference, which is currently scheduled to convene in Geneva on December 11.

● Iraq launched two attacks on Iranian vessels shuttling oil from its main terminal at Kharg Island yesterday.

India in surprise swoop on Tamils

BY K. K. SHARMA IN NEW DELHI AND MERVYN DE SILVA IN COLOMBO



POLICE IN the southern Indian state of Tamil Nadu made a surprise swoop at the weekend on Sri Lankan Tamil militants who have taken refuge there. About 1,000 were arrested and thousands disarmed.

Among the arms seized were rocket launchers, machine guns, automatic rifles and an unspecified quantity of ammunition. Among those arrested were leaders of the groups who for more than three years have organised operations in northern Sri Lanka from Tamil Nadu.

The leaders were detained for up to eight hours before being released after police took an inventory of their weapons and belongings and raided their offices.

The crackdown was seen in Colombo as a signal by Delhi in advance of the second South Asian summit, opening next week in Bangalore, where cross-border terrorism is expected to be high on the agenda and where negotiations between Mr Rajiv Gandhi, the Indian leader, and Mr J. P. Jayewardene, the Sri Lankan president, are to take place.

Police warned the guerrilla leaders they should refrain from terrorist activities on Indian soil. Observers believe that the security forces may have been referring to the killing of a Tamil Nadu social worker in Madras last week by members of a Sri Lankan guerrilla group.

Reports from Madras, where the Tamil groups are based, say the state government informed central government of plans for the crackdown but said the operation was ordered by New Delhi. This is not widely believed.

Sri Lanka Tamil militants and refugees in Tamil Nadu have conducted their operations with at least the tacit consent of the Indian Government and have been given refugee status by it.

Many believe that militants' training camps in Tamil Nadu have been approved by the authorities. The crackdown was a surprise because of India's sympathies for the Tamil struggle for independence.

Mr Jayewardene's latest proposals for a settlement to the ethnic strife were rejected last week by the Tamil militants on the ground that they did not go far enough to satisfy their demands for autonomy for the northern and eastern provinces of Sri Lanka.

The proposals are thought to have been commended to the militant groups by the Indian Government, which is acting as a mediator. The crackdown could mean that the Indians intend to put pressure on the militants to reach a settlement.

Israel admits holding 'missing' nuclear technician

BY ANDREW WHITLEY IN JERUSALEM

THE Israeli Government yesterday publicly admitted that it was holding Mr Mordechai Vanunu, the nuclear technician who disappeared in London six weeks ago after leaking the country's nuclear weapons secrets.

At the same time, the Government denied that he had been kidnapped on British soil. It said there was no basis to a report that Mr Shimon Peres, the former Labour Prime Minister, had contacted Mrs Margaret Thatcher, "to inform her about something that never took place."

An official statement, issued after yesterday's regular Cabinet meeting, said Mr Vanunu was "under legal detention," following a court order issued after a hearing at which he had had legal representation.

No further details would be published as the case was sub judice, the statement said.

However, a police spokesman yesterday denied that the dissident Israeli was being held in a police facility. Mr Vanunu is believed to have been originally picked up abroad by Israel's intelligence services.

Mr Vanunu's voice was yesterday heard—albeit indirectly—for the first time since his disappearance. Speaking on the army radio, his lawyer, Mr Amnon Zichroni, said his client protested against the public "lynching" to which he had been subjected by the Israeli press in recent days.

Mr Zichroni, a prominent left-winger, said his client was well but said he was unable to comment on the investigation because of security restrictions.

Brief though it was, the belated official admission that the former technician from the Dimona nuclear research centre is under arrest in Israel carries far-reaching implications which go well beyond the particular circumstances of Mr Vanunu's mysterious re-appearance in Israel.

It tacitly acknowledges the veracity of his claims to a British newspaper that over the past 20 years Israel has secretly developed a nuclear weapons capacity.

There has never been a public debate in Israel over the possession or use of nuclear weapons, even though it has long been widely believed both within Israel and abroad that the Jewish state had become the world's sixth nuclear power.

Israelis have traditionally comforted themselves with the belief that—if the worst came to the worst—the "bomb in the basement" indeed existed. Mr Amos Rubin, the Prime Minister's economic adviser, for example, is well known as advocating that Israel should base its defence policies on a public acknowledgement of its nuclear might

Unctad urges united action to curb excess shipbuilding

BY WILLIAM DULLFORCE IN GENEVA

SUBSIDISED excess shipbuilding capacity is probably the major obstacle to restoring the balance between supply and demand and solving the crisis in world shipping, the secretariat of the United Nations Conference on Development and Trade (Unctad) states in the cheerless report it will submit today to the organisation's shipping committee.

Restructuring of shipyards in the 1970s following the oil and tanker crisis reduced world shipbuilding capacity by about 20 per cent, but there still exists an excess capacity of about 40 per cent in 1986, the report estimates.

Given the oversupply of tonnage of about 25 per cent in the present merchant fleet, it cannot be realistically expected that demand will develop in the foreseeable future to meet the excess shipbuilding capacity.

Separate action by individual governments or interest groups will not restore the balance, the Unctad economists argue. A series of measures taken simultaneously in several areas by governments, intergovernmental organisations, shipowner and shipbuilding associations and ship financing sources is required.

Total surplus tonnage was estimated last year at 161.8m dwt (deadweight tonnes) or 24.3 per cent of the world merchant fleet. In tankers alone, the surplus amounted to 102.7m dwt or 37.1 per cent of the world tanker fleet. In the dry bulk sector the surplus is put at 51.5m dwt or 23.1 per cent of the total.

The situation has improved since 1983 when the surplus tonnage in the merchant fleet was estimated to be 28.5 per cent. But Unctad is less optimistic about the chances of the tonnage needed coinciding with the actual size of the fleet over the next decade than the Japan Maritime Research Institute and the Association of West European Shipbuilders have been in their latest forecasts.

Unctad takes issue with the broad combination of protectionist and other support measures of both shipping and shipbuilding taken by many countries.

The Organisation for Economic Co-operation and Development (OECD) calculated that subsidies to shipbuilding in 1983 amounted to about $5bn worldwide.

This would indicate a general worldwide subsidy level of about 25 per cent compared with the value of new ships delivered in the same year, roughly estimated at some $20bn, Unctad comments.

The high level of subsidisation has exerted a strong downward pressure on prices for new ships and stimulated speculative investment. The representative newbuilding price for a 250,000 dwt tanker tumbled from $75m in 1980 to $47m in 1985.

Accelerated scrapping of obsolete ships is one course advocated. Between 1978 and 1985 a total of 220 ships amounting to 8.5m grt (gross registered tons) were scrapped. Unctad believes the contribution of accelerated scrapping schemes should not be overestimated but suggests governments could increase their financial aid to developing countries for the establishment of scrapyards.

A recent shipping development analysed critically in the Unctad report is the build-up of round-the-world container shipping services since 1984. These are provided by vessels which circumnavigate the globe on fixed liner schedules.

Four big shipping operators — ABC Container Line, Barber Blue Sea Line, United States Line and Evergreen — offer these services while three other lines offer integrated end-to-end linking voyages at common transhipment points.

Market concentration has been increased and the lack of equilibrium between supply and demand on many containerised liner routes has been accentuated, Unctad says.

SHIPPING REPORT

Tanker rates steady as dealers await oil moves

BY KEVIN BROWN

RATES REMAINED steady for tankers loading in the Gulf last week as owners and charterers continued to await developments in oil prices. Brokers said there was some possibility of slight improvements in rates next week, however.

Interest in very large crude carriers was said to be picking up, though with little immediate impact on rates in the low Worldscale 20s, and there was more demand for tankers of around 130,000 tons deadweight, for which rates remained around 37.5 to 40, depending on the discharge area.

Brokers said there was little business available in West Africa, where it was assumed the Nigerian Government was diligently observing the production quota set by the Organisation of Petroleum Exporting Countries.

A few cargoes were also reported to be available from Mexico, but rates were said to be varying from Worldscale 20 to 25 for UK discharge.

Better levels were available for owners trading around the European coast, where Galbraith's, the London brokers, said a shortage of tonnage had enabled an owner to achieve Worldscale 100 for a 67,000 tons cargo of crude oil from Sullom Voe.

The trend remained weak in the dry cargo markets, but rates for Panamax ships (the largest able to transit the Panama Canal) remained steady at around $7-$7.25 for trips from the US Gulf to Europe, and around $12.25 for US/Japan cargoes.

Mozambique rebels claim rail traffic to Beira halted

BY OUR FOREIGN STAFF

THE Mozambique National Resistance (MNR), the right-wing rebel movement attempting to overthrow the government of President Joaquim Chissano, claimed at the weekend to have sabotaged the railway line from Zimbabwe to the port of Beira in Mozambique at four points.

The so-called Beira Corridor, providing Zimbabwe's shortest rail and road route to the sea as well as carrying a vital oil pipeline, is guarded by several thousand Zimbabwe troops.

An MNR statement issued in Lisbon said that "rail traffic between Beira and Zimbabwe is now completely paralysed." The rebels also claimed to have shelled Zimbabwe's military headquarters in Mozambique at Chimoio, killing 25 soldiers.

Last month Mr Robert Mugabe, Zimbabwe's Prime Minister, reaffirmed his country's military support for Mozambique in the war against the MNR.

Mr Afonso Dhlakama, the rebel leader, responded by declaring war on Zimbabwe.

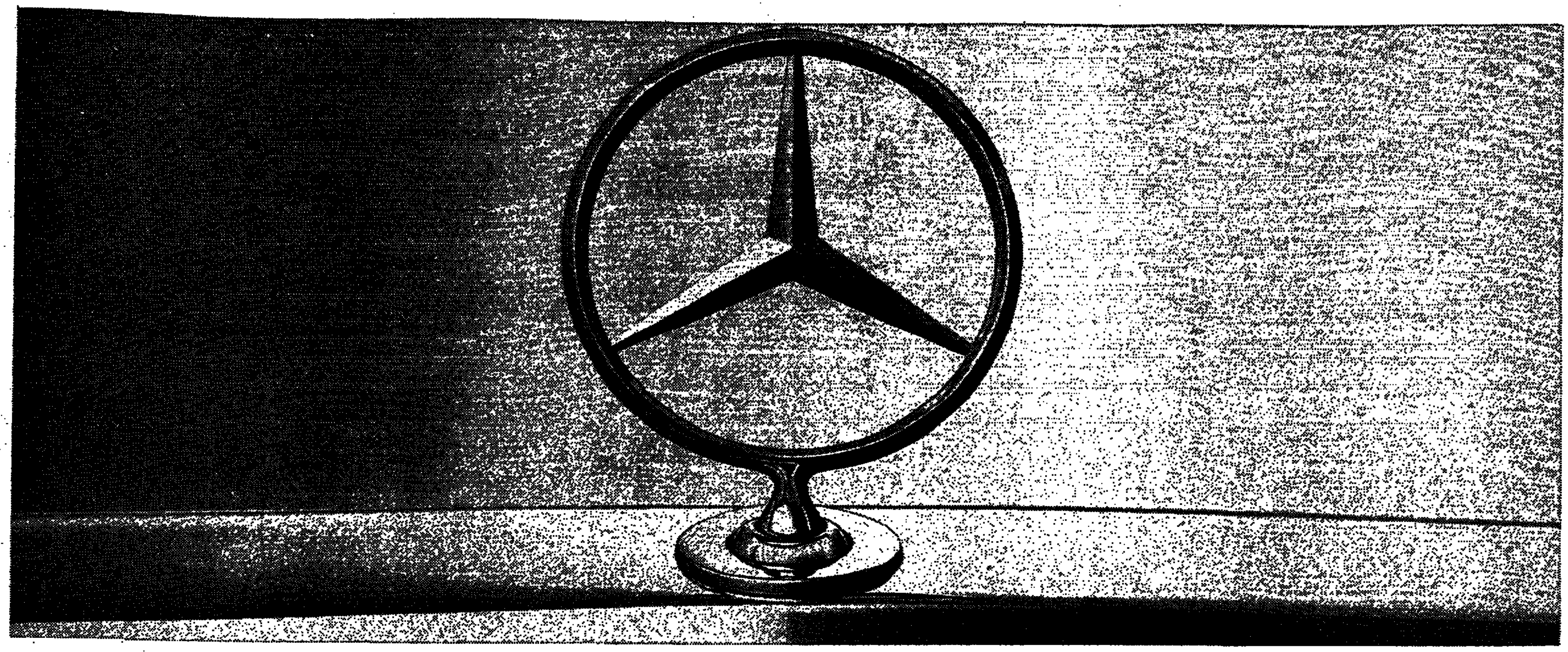
● Black youths and municipal police fought a gun battle in the latest eruption of violence in the troubled black township of Soweto, Reuter reports from Johannesburg.

The Bureau for Information said that blacks fired 10 shots on Saturday at municipal police, who fired back.

The sprawling township south of Johannesburg has been tense for several days with at least three people shot dead

● General Motors has said that it will keep closed its two strikebound plants near Port Elizabeth, South Africa, because the union has not formally agreed that workers would end a 10-day wildcat strike, AP reports.

The strike arose from GM's decision to sell its South African operation to local management. About 2,000 of the company's 3,000 workers struck on October 29 for a say in the new management and money guarantees for anyone dismissed because of the sale.



IS IT REALLY WORTH £3,135?

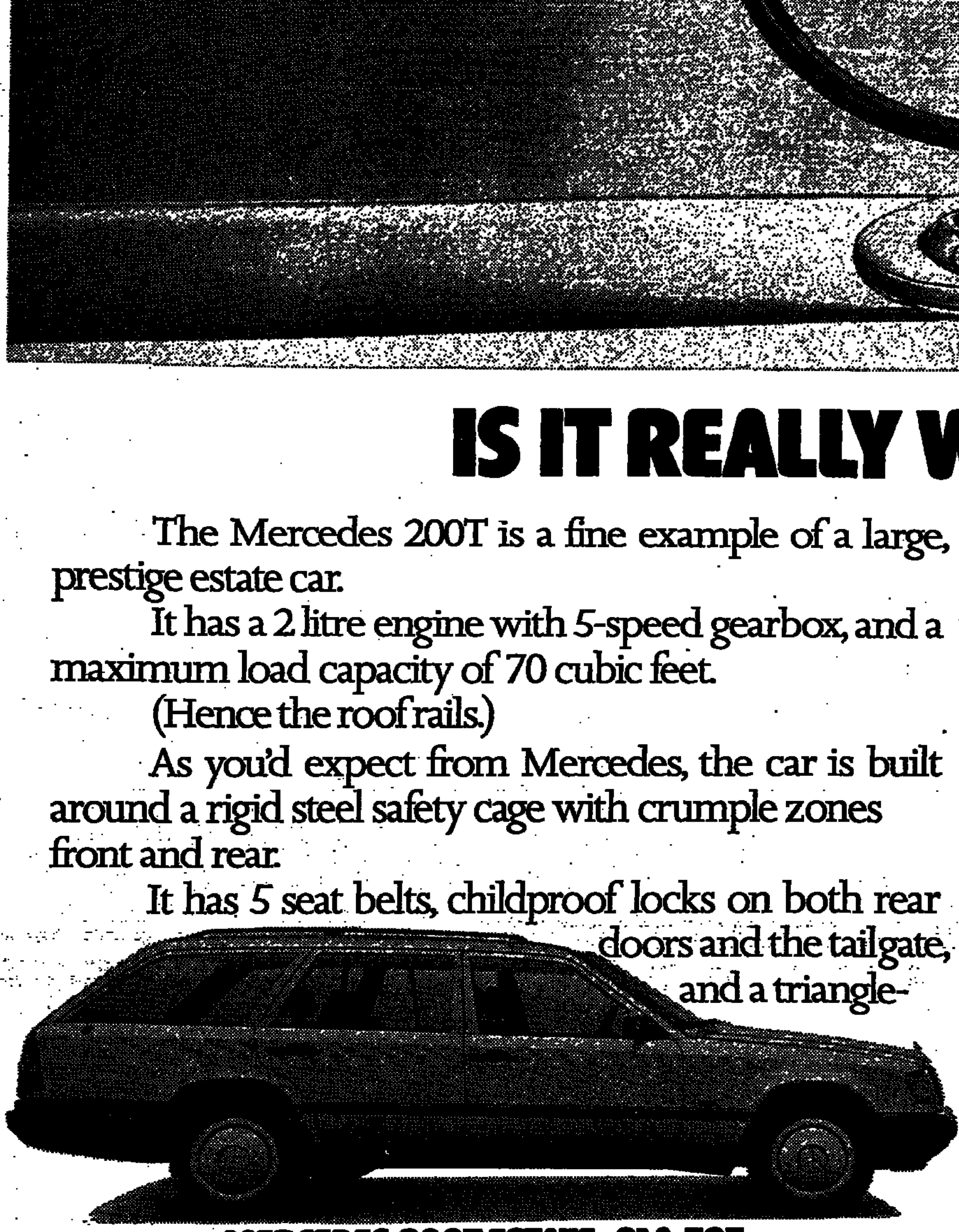
The Mercedes 200T is a fine example of a large, prestige estate car.

It has a 2 litre engine with 5-speed gearbox, and a maximum load capacity of 70 cubic feet.

(Hence the roof rails.)

As you'd expect from Mercedes, the car is built around a rigid steel safety cage with crumple zones front and rear.

It has 5 seat belts, childproof locks on both rear doors and the tailgate, and a triangle-



MERCEDES 200T ESTATE. £14,595.

split dual circuit brake system. The brakes are servo-assisted discs all round, and the car is equipped with rack and pinion power steering.

Its turning circle of 36′ 9″ is smaller than that of a London bus.

Standard equipment includes central locking, tinted glass, rear window wash/wiper and cloth upholstery.

Optional extras include headlamp wash/wipers (£249), heated front seats (£286) and orthopaedic front seat backrests (£215 each).

The car comes complete with Mercedes' unique 3-pointed star on the bonnet.

To: Mercedes-Benz UK Ltd., Tongwell, Milton Keynes, Bucks MK15 8BA.
Please send me further details of the Mercedes 200T Estate.
Mr/Mrs/Miss ____________
Address ____________
____________ Postcode ____________

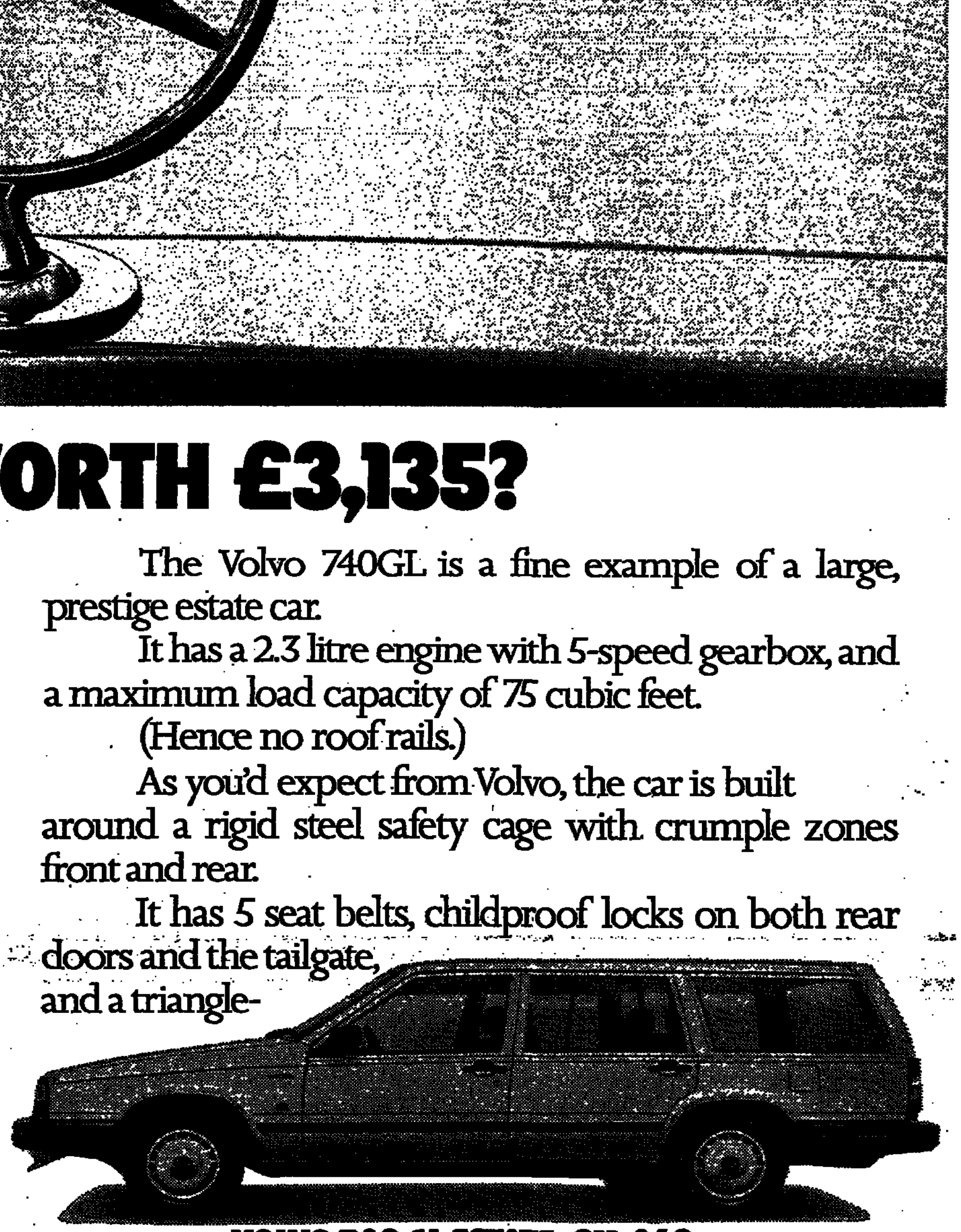
The Volvo 740GL is a fine example of a large, prestige estate car.

It has a 2.3 litre engine with 5-speed gearbox, and a maximum load capacity of 75 cubic feet.

(Hence no roof rails.)

As you'd expect from Volvo, the car is built around a rigid steel safety cage with crumple zones front and rear.

It has 5 seat belts, childproof locks on both rear doors and the tailgate, and a triangle-



VOLVO 740 GL ESTATE. £11,460.

split dual circuit brake system. The brakes are servo-assisted discs all round, and the car is equipped with rack and pinion power steering.

Its turning circle of 32′ 6″ is smaller than that of a VW Golf.

Standard equipment includes central locking, tinted glass, rear window wash/wiper and plush upholstery.

Not to mention headlamp wash/wipers, heated front seats and adjustable lumbar support in both front seats.

The car comes complete with Volvo's unique Lifetime Care Commitment.

To: Volvo, Springfield House, Princess Street, Bristol BS3 4EF.
For a brochure on Volvo Estates, call 0800 400 430 free, or post the coupon.
Mr/Mrs/Miss ____________ 75/83-05-F-46.
Address ____________
____________ Postcode ____________

THE VOLVO 740 AND 760 ESTATES. PRICES FROM £11,460 TO £18,735 INCLUDING CAR TAX AND VAT (EXCLUDING DELIVERY AND NUMBER PLATES). PRICES CORRECT AT TIME OF GOING TO PRESS. FOR CUSTOMER INFORMATION TELEPHONE: IPSWICH (0473) 715131.

Nakasone takes Seoul plea for talks to Peking

BY ROBERT THOMSON IN PEKING

MR YASUHIRO NAKASONE, the Japanese Prime Minister, has acted as a messenger for South Korea during a two-day visit to China by passing to Chinese leaders a request for formal talks aimed at easing tension on the Korean peninsula.

Diplomatic sources said Mr Nakasone also passed the personal regards of Chun Doo Hwan, the South Korean leader, to the Chinese and relayed his hopes for improved Sino-South Korean relations.

Mr Nakasone told a press conference that Japan was "willing and able to act as a bridge between Peking and Seoul" and showed his country's willingness to take a larger role in regional affairs.

South Korea's proposal is for talks involving North Korea, South Korea, China and the US. Until now, China has supported the North Korean push for negotiations involving the US and South Korea, which North Korea regards as a US puppet.

China has rejected previous US suggestions that Peking be involved in discussions and aimed at putting together a non-aggression pact for the Korean peninsula.

North Korea is keen to negotiate with the US to show that Washington is responsible for Seoul and to undermine South Korea's status.

Mr Nakasone told the Chinese Communist Party general-secretary, Hu Yaobang, that he supports four-way talks but Mr Hu did not respond. However, it is understood Mr Hu expressed gratitude for the warm welcome given to Chinese athletes at the recent Asian games in Seoul.

South Korea's plan leaves out the Soviet Union, which has stepped up ties with Pyongyang this year and will be a major player in any movement on the peninsula. China is aware that better relations with Seoul will irk North Korea and push it closer to Moscow.

Mr Nakasone said Japan and China had "established a friendly and trusting" relationship, though he admitted problems would arise and must be solved with a view to the long-term.

Premier Zhao Ziyang for China, asked that Japan increase investment and said that the strength of the yen should have boosted Japan's investment funds. Mr Nakasone told a press conference Japan should open up its markets while China must improve its exports.

AP adds from Rome: Mr Kim Young-Sam, the South Korean opposition leader, yesterday called on the US to withdraw its political support of President Chun's Government and back the "democratisation process" in his country.

"The United States should extend solidarity and moral support for the realisation of our common ideal—establishment of a genuine liberal democracy in Korea," Mr Kim said in an interview.

Japanese trade mission to discuss EEC tensions

BY CARLA RAPOPORT IN TOKYO

JAPAN'S senior business leaders arrive in Europe tomorrow for two weeks of talks with heads of governments in an effort to reduce rising trade tension between Japan and Europe.

Japan's federation of economic organisations, the powerful Keidanren, will be meeting Mr Jacques Delors, EC Commission president, Mrs Thatcher, UK Prime Minister, Mr Jacques Chirac, the French Prime Minister, Mr Kurt Waldheim, the Austrian president, and Mr Wilfried Martens, the Belgian prime minister. A second mission to West Germany and Italy is being organised for early next year.

The mission, the second in two months, is in direct response to recent initiatives taken by Brussels to pressure Japan into buying more European goods, reducing exports in key areas such as cars, and refraining from potentially damaging bilateral trade agreements with the US.

S Korea to compete in European PC market

By Terry Dodsworth in London

HYUNDAI, the industrial and electronics conglomerate, is set to become the first South Korean company to launch its personal computer in Europe.

The machine, due to go on sale early next year, will compete with low-cost personal computers such as the PC 1512 model recently launched by Amstrad of the UK in a rapidly growing field of compatible machines.

Hyundai initially developed the computer for the US, where it is being sold by Blue Chip of Phoenix, Arizona, a marketing orgisation with exclusive rights to the product in America. Blue Chip intends to sell about 20,000 of the machines this year.

Mr Sun Lee, a Hyundai executive, says his company has signed contracts in Switzerland and the Netherlands to distribute its personal computer in Europe, but will not have sufficient capacity before next year to begin deliveries outside the US. Output is now being geared up to full capacity of about 20,000 units a month.

Hyundai's move into the personal computer business follows the success of Daewoo, another leading South Korean conglomerate, whose marketing organisation claims to have sold 200,000 of its Model D computer in the US, capturing roughly 7 per cent of the American market.

The Model D and the Blue Chip machines mark the evolution of South Korean personal computer manufacturing from the contract level, at which externally-designed models are made for large foreign groups, to a stage where they are designing and developing their own.

● South Korea may open its domestic market for large passenger cars to foreign manufacturers as early as July 1987 in order to head off protectionist pressure in the US, a Ministry of Trade and Industry officials said in Seoul, AP-DJ reports.

Currently, the Government plans to allow imports of small passenger car (with engine displacement of less than 2,000cc) beginning July 1 1987, and the import of large cars (with an engine displacement greater than 2,000cc) beginning in July 1 1986. The official said the plan may be changed depending on the condition of domestic automakers.

Ian Rodger and Samuel Senoren preview the Philippines' president's visit

Aquino takes her begging bowl to Tokyo

THE JAPANESE, who have managed to keep a low profile in international affairs for a long time, are suddenly finding it difficult to avoid awkward diplomatic situations. The four-day state visit by Philippine President Corazon Aquino, due to start today, has already produced several.

First, Mrs Aquino made it clear that she wanted to address the Diet (parliament), a privilege often given visiting statesmen. However, leaders of the ruling Liberal Democratic Party recoiled from the prospect, knowing that it would give Opposition politicians an opportunity to raise questions about a scandal last spring involving Government officials and misappropriation of aid funds for the Philippines.

So the Japanese Foreign Ministry has had the embarrassing job of telling Mrs Aquino that the Diet could not find a suitable time for her to make an address.

Second, there is the question of aid. The Japanese are getting accustomed to state visitors from developing countries pulling out large begging bowls, but officials are aghast at Manila's requests.

Mrs Aquino's advisers have identified the following areas totalling Y260bn ($1.6bn) where Japan could help:

● A loan of Y130bn, comprising the 14th yen loan package for 1987 through the Overseas Economic Cooperation Fund (OECF).

● Credits of up to Y80bn from the Eximbank of Japan to augment an "economic recovery loan" of $300m which has been committed by the World Bank.

● A further loan of about Y50bn also from OECF to finance construction of a new 300 MW coal-fired power plant to replace half the rated output of the $2bn nuclear power plant which is to be dismantled.

Corazon Aquino: low-key trip

The request for new loans is unprecedented for any single year, and compares with Japanese aid to the Philippines in 1986 of just under Y50bn.

On top of the new official credits, Mrs Aquino is also to appeal to Japanese banks to support her Government's efforts to reschedule close to $10bn in commercial loans with maturity periods ranging from late 1983 to 1992.

Among the Philippines' 483 creditors, Japanese banks rank next to the US in terms of exposure, with a total of $2.4bn out of total commercial debts of about $15.4bn.

Manila will also attempt to persuade Tokyo further to lift import tariff barriers for a number of major Philippine export products and is expected to offer to Japanese investors some $2bn in assets of state enterprises which are being privatised.

It was not clear in Tokyo whether any new aid could be agreed during the visit, despite the phalanx of five economic and financial Ministers who will be accompanying Mrs Aquino.

They are likely to point out that Mr Ferdinand Marcos, Mrs Aquino's predecessor who fell in a coup in February, relied heavily on Japanese support for 20 years to control the government and manage the economy, which he left in a shambles.

The question of Japan's general attitude to Mrs Aquino's government, which remains under threat from a Communist insurgency is also a delicate one. Unlike the US Government, which has chosen to embrace her warmly, Japan has taken a detached view. "She is the president of Philippines. We welcome her as the president," a Foreign Ministry official said.

Washington might like Tokyo to do what ever it can to help the Aquino Government fend off the Communists, but the Japanese seem more inclined to hedge their bets.

Thus, while there will be plenty of ceremony — visits to the Emperor, attendance at a bonsai and flower show and an honorary doctorate from Waseda University — are on the agenda, few actual issues, apart from aid, seem likely to be raised.

For example, Japanese officials said they did not intend to bring up the question of surreptitious arms imports from the Philippines into Japan, even though the explosion of a grenade carried by a Japanese gangster on a flight from Manila to Osaka last week nearly caused a Thai Airways aircraft to crash.

The Philippine Government, for its part, has not raised the question of Japan's tighter restrictions on visas for Philippine nationals living in Japan.

THE PHILIPPINES' armed forces went on full alert yesterday on the eve of President Corazon Aquino's departure for Japan to forestall any attempt to destabilise the Government while she was away.

General Fidel Ramos, armed forces chief, ordered troops to secure military camps in and around Manila, particularly at the army headquarters in suburban Quezon City where nationwide communications facilities are located.

Rumours have been sweeping Manila about an alleged plot by unnamed military units supposedly loyal to Mr Juan Ponce Enrile, the Defence Minister, to start manoeuvres to pressure Mrs Aquino into firing her left-leaning Cabinet members.

But Mr Enrile assured Mrs Aquino last Saturday that he would do his best to stop any attempt to destabilise the Government.

There was a suspicion that the coup rumours were fanned by leftist elements who wanted to pressure Mrs Aquino into sacking Mr Enrile who has been highly critical of her "soft" approach in dealing with insurgency.

Brussels prepares salutary message for Canberra

Chris Sherwell in Sydney looks at the background to EEC trade tensions with Australia

MR WILLY DE CLERCQ, the European Commissioner for External Relations and Trade, will this week lead the Community's annual ministerial consultations with the Australian Government seven months later than originally planned.

The consultations, due last April, were called off by Mr de Clercq in something of a huff, officially because of tough criticism of EEC policies from Canberra.

But Brussels was also upset at an Australian move to appoint a representative in Europe based in London and without formal accreditation.

Only now, it seems, has the sourness over these issues dissipated enough to allow a potentially more productive exchange between two pars of the world which are often at loggerheads.

Australia tends to see the EEC in terms of the Common Agricultural Policy and little more. As this is perceived to hurt Australia's farm exports, the Community has a poor image "down under"—one not helped by the EEC's own lack of interest in Australia in the 1970s.

The European view of Australia also appears simplistic. Australians are seen as too ready to complain, too ready to blame their misfortunes on external events and too comfortable with their vast resource wealth and over-protective industrial tariffs.

Through their own failings, Australia is thought to have been blind to European economic opportunities staring them in the face.

The EEC is Australia's second-largest market after Japan and its third-largest source of imports after the US and Japan. In 1985-86, Australian exports to the EEC rose 15 per cent to more than A$4.6bn (£2.07bn).

The pattern of this trade, moreover, has been changing. In the 1950s and 1960s the bulk of Australia's European trade was carried out with Britain. Britain's share has since declined, following its accession to the Community in 1973.

At the same time, Australia's agricultural exports to Europe have fallen, but compensation has come from increased European purchases of Australian minerals, fuels and basic metals.

Australia and the EEC also have important accords regarding European purchases of lamb, mutton and beef and European sales of beef in Pacific countries regarded as traditional Australian markets.

None of this has prevented misunderstandings emerging. Australia was a key member of the "non-subsidising" commodity producers group which pushed the recent Gatt meeting in Punte del Este to include farm subsidies in the next international trade round. Fuelling Canberra's resolve has been its growing testiness over the EEC's Common Agricultural Policy.

The European response on all this was clear and to the point. The EEC said it had long been ready to see all aspects of agricultural trade included in the next round of trade negotiations.

On the Soviet sale it said this represented only a quarter of normal Soviet purchases from the Community annually, and that Moscow had at that stage bought little over a quarter of its total likely purchases of some 19m tonnes.

The Europeans go further than this, however. Mr de Clercq is likely to take a salutary message both to Mr Bob Hawke, Australia's Prime Minister, and his key economic ministers in the Labor Government, and to the Australian business and industrial community.

In the words of one European, this is going to be: "Stop complaining about agriculture when we're all suffering from problems of overproduction and weak demand, and wake up to the fact that Europe has 320m solvent consumers sitting behind the lowest industrial tariffs in the world."

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SE ready to reinforce effort over uncleared deals backlog

BY ALAN CANE

STOCK EXCHANGE firms in London will have to wait until tomorrow morning to learn whether their efforts over the weekend to reduce the number of outstanding bargains awaiting clearance after Big Bang two weeks ago have been successful.

With only five working days left before settlement on November 17 when money has to be paid out and share certificates handed over, the exchange's settlements committee is meeting this morning. It will decide what further sanctions to pursue if tomorrow's figures show unsatisfactory progress in reducing the backlog, still standing at more than 50,000 unmatched trade reports, equivalent to some 20,000 bargains worth just under £500,000.

Mr Michael Baker, head of the exchange's settlement division, said that accounting and trading staff from every broker/dealer firm had worked on Saturday in an effort to clear the backlog. They had been assisted by about 80 exchange staff and he was optimistic about the results.

No attempt had been made to clear bargains through the settlement computers Charm and Talisman. The day had been devoted to eliminating manually errors in the outstanding trade reports. Only when these reports were fed into the computer system on Monday night would it become clear if progress had been made.

Every stock market bargain results in two trade reports, one from the buyer, the other from the seller. Only if the two reports match in every significant detail when compared in the Charm computer system is the bargain allowed to go through to final clearance and settlement in Talisman.

Some confusion was expected after Big Bang. A substantial proportion of the unmatched trade reports are the results of wrong or incomplete preparation. In some report the firm's settlement codes are wrong; in others, the time stamp has been omitted. Some firms' computer systems have difficulty converting four digit trading codes into three digit settlement codes.

CBI aims to attack Labour policies

By Hazel Duffy

THE LABOUR Party's policies on industrial relations and social ownership will come under strong attack from Mr David Nickson, president of the Confederation of British Industry (CBI), when he opens the confederation's 10th annual conference in Bournemouth today.

At yesterday's launch of the CBI's business manifesto, Mr Nickson said he did not disagree with Sir Terence Beckett, CBI Director General, who said last week that Labour policies would mean a return to "the mayhem of the 1970s."

The CBI was against any extension of public ownership and wanted a continuation of the "step by step" reforms in industrial relations law, although more time was needed to absorb them.

The employers' leaders showed a marked reluctance to be drawn into any policy statements on other issues which could be construed critical of the Government in a pre-election period.

On the timing of Britain's entry into the exchange rate mechanism of the European monetary system, for which the CBI has been calling for the past 18 months, Mr Nickson said only that he preferred it should be "sooner rather than later."

Delegates will be discussing a resolution later today, however, which calls on the Government to negotiate membership without further delay.

A cautious welcome was given to the Chancellor of the Exchequer's autumn statement, pending further study by the CBI, on the grounds that the public spending increase was containable within the Treasury's medium-term financial strategy.

Obstacles likely to rule out creation of fibre optic grid

BY RAYMOND SNODDY

ONE OF the central long-term recommendations of the Peacock Committee into the future of broadcasting, the creation in Britain of a national fibre optic grid, is unlikely to be implemented.

The concept of a grid offering almost limitless capacity to distribute television channels has run into severe obstacles and a barrage of criticism.

The Peacock Committee wanted the grid because of what it saw as the slow growth of cable television networks and the opportunities it would offer consumers for buying individual programmes as they now do books or magazines.

The idea is still being studied by a government committee and has not been formally rejected, but it is now expected to be ruled out for the forseeable future because of the practical difficulties involved.

The Peacock Committee recommendation envisaged national telecommunications organisations such as British Telecom being able to act as common carriers for the provision of a full range of services, including television programmes on such a network.

A key difficulty is that BT, as a private company, would have little commercial incentive to build a grid costing perhaps £10bn if it was only a common carrier leasing out the capacity for others to use.

Any attempt, however, to give BT the exclusive right to run a combination of telephone and television services over its fibre optic network would be vigorously opposed by Oftel, the telecommunications regulatory body. Oftel would see such a move as increasing BT dominance of the communications market.

In particular, such a national grid would destroy any incentive independent cable operators would have to build their own networks and use them to offer competing local telephone services as well as cable television channels.

Government keeps its election options open

BY PETER RIDDELL, POLITICAL CORRESPONDENT

THE SPEECH by the Queen in the House of Commons on Wednesday, which will outline the Government's legislative programme for the coming parliamentary session, will be one of the least contentious in recent years. The government is attempting to be as flexible as possible over the choice of a date for a general election.

The Cabinet's intention is that the whole programme will be completed by next July, allowing scope for a late summer or early autumn election. Normally, as this year, both the Lords and House of Commons sit for a few weeks in the autumn to complete business.

To achieve this end a number of controversial measures such as water privatisation and English and Welsh property tax reforms have been held over. Nevertheless, there will still be about 30 bills, of which the largest will concern criminal justice, covering a wide range of aspects including sentencing, court procedure and fraud.

The two most controversial are are likely to be property tax reform in Scotland (introducing a new community charge) and local government in England and Wales, (requiring the contracting out of local manual services and the banning of party political advertisements by councils).

Sea document transfer system threatened by shortage of funds

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

A SYSTEM for the electronic transfer of shipping documents, developed by a subsidiary of Chase Manhattan Holdings, is facing closure because of lack of funds. This is despite a successful trial in the North Sea.

SeaDocs Registry has been given a deadline of less than two weeks to raise $6m (£4.2m) from shipowners, oil companies, and trading organisations.

Chase Manhattan, which has provided $6m over the last four years to develop the system, is understood to be insisting that further finance is provided by companies in the maritime sector.

The SeaDocs system is intended to overcome problems with the physical transfer of bills of lading, the internationally recognised proof of legal entitlement to a cargo.

The use of bills of lading dates back over 400 years, but the system has come under strain in recent years because of the increasing complexity of trading chains, in which the ownership of cargoes may change hands several times while a ship is at sea.

A number of shipowners' organisations have recently warned their members against delivering cargoes without the protection of a bill of lading. Problems have included fraud and loss of insurance cover as well as the possibility of delivering a cargo to the wrong company.

The SeaDocs system provides for electronic transfer of bills of lading or relevant information from a computer in London. SeaDocs acts as an agent for the parties involved, guaranteeing security and transmission.

A pilot system has been operating since January in the North Sea, using cargoes of crude oil from the Ekofisk field loaded at the Teesside terminal of Phillips Petroleum. Around 100 companies are understood to have taken part in the pilot, including oil companies, shipowners and banks.

Mr John Storck, managing director of SeaDocs Registry, said the pilot had proved that the concept worked and the company was anxious to expand into the rest of the shipping industry.

Mr Storck said the project would collapse, however, unless other companies in the maritime sector agreed "to put some money on the table to develop the idea."

Chase Manhattan said it was "crucial" that other companies should invest in SeaDocs.

UK NEWS

David Thomas finds a computer chief optimistic despite the sceptics

Amstrad broadens its goals

AMSTRAD, the fast-growing UK consumer electronics group, is already working on a new version of its personal computer range – launched only in September – which is likely to be even cheaper than its present machines.

An improved Amstrad personal computer, which the company stresses will not be ready until the end of next year at the earliest, is just one of a group of new products which Amstrad is developing. The eight models in the present Amstrad personal computer range are cheaper than virtually all its competitors in Europe.

However, Mr Alan Sugar, Amstrad chairman, said that the company now realises it can build an even more cost effective machine by taking charge of the design of some of the key components itself.

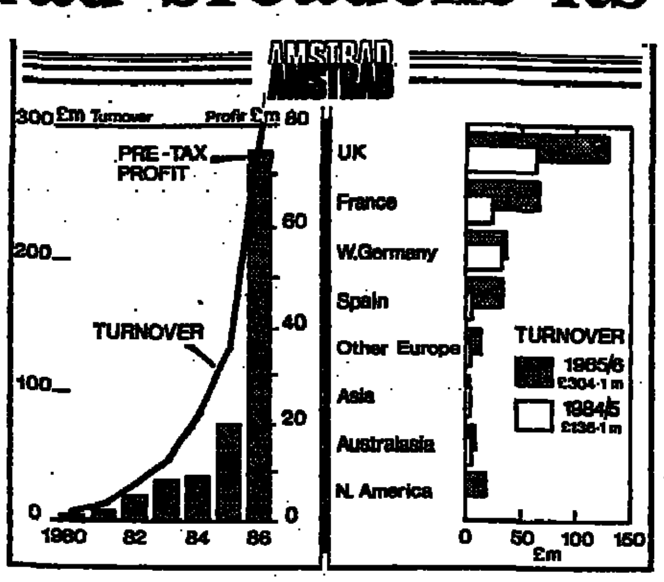
"We're paying a lot of money out there for a lot of redundant components not doing anything – which is not really the Amstrad style," Mr Sugar said.

In particular, Mr Sugar pointed to the hard disk as something which Amstrad could improve. "We can build the hard disk in ourselves."

The implication of saving on key components is that the next generation of Amstrad personal computers is likely to be even cheaper than the present range.

"If people think we're competing aggressively now, they'd better watch out next year," Mr Sugar said.

Amstrad is also planning other new products at present in different stages of development.



● Word processors. Amstrad is designing an improved version of its low cost word processor, which notched up sales of 350,000 units in the first eight months after its launch in August last year. The improved word processor is likely to be ready in the third or fourth quarter of next year.

● Printers. Amstrad is to start making four models of printers in order to sell the printers separately as a product to be used on other companies' machines. Until now, Amstrad's printers have mainly been used on its own machines.

"Printers have suffered from the same type of high prices as the computer industry. There is no justification for it," Mr Sugar said. Amstrad will boost its printer output from 20,000 a month to 30,000 to 40,000 a month by the *third* quarter of next year. Its Hong Kong factory will be expanded to take on the work.

● White goods. Amstrad is finishing what Mr Sugar says is "a big study" of fridges and washing machines. The company will decide next year whether to start making these. Mr Sugar says Amstrad could start producing them quickly if it decides to enter these markets.

● Satellite dishes. Amstrad is talking to chip makers and Far Eastern satellite dish makers about its plans to make satellite receiving dishes for a mass satellite broadcasting market. However, this is seen as a longer term project, because satellite broadcasting is not expected to be launched in the UK until 1990 and Amstrad is unlikely to enter the French or West German satellite dish market before then.

The past two months have been difficult for Amstrad, with the company facing three main problems.

There have been rumours, strongly denied by the company, that the machines' performances are not up to scratch. The top of the range hard disk machines have been said to overheat when attachments are put on them.

The City of London, has been sceptical about whether Amstrad has this time bitten off more than it can chew. The personal computer must meet its ambitious sales targets if Amstrad is to maintain its spectacular growth rates.

Amstrad has failed so far to have enough machines ready to put in dealers' and customers' hands as orders have come flooding in.

Mr Sugar has been characteristically vigorous in his response to these criticisms. He insists that sceptics will have to eat their words when sales of the personal computer feed through into Amstrad's financial results. "The City's journalists' reactions have always taken the same pattern to our new products."

"We have a very vigorous growth path up our sleeve," Mr Sugar adds. He expects margins for this year to be about 20 per cent, only slightly down on the exceptional 25 per cent achieved last year.

Television shares attract US interest

BY RAYMOND SNODDY

A NUMBER of US institutions are looking seriously at the shares of Britain's independent television (ITV) companies after a New York stockbroker's report last week recommended six leading ITV companies.

Thames Television, the largest ITV company, believes that a US institution has already been buying its shares, now standing at 333p after a July flotation price of 190p. Mr David Londoner, a senior media analyst for Wertheim, a New York investment bank and brokerage company, published a study arguing that the shares of ITV companies were *undervalued compared* with the stocks of US broadcasting companies.

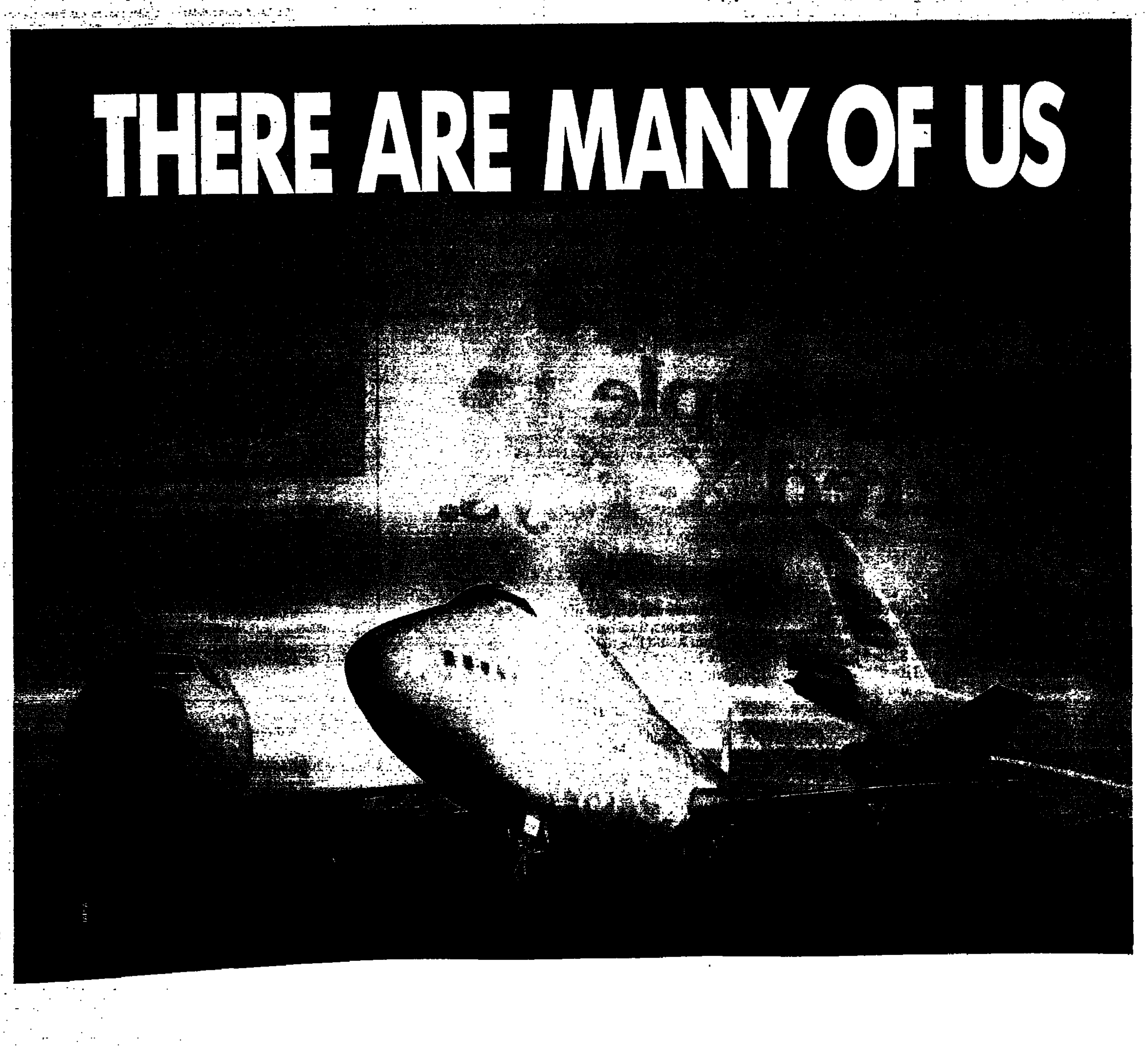
He recommended Thames, Yorkshire, and TV-am the commercial breakfast station as "buys." All three made their London Stock Exchange debut this year. Mr Londoner also had positive things to say about three other ITV companies he looked at – Central, London Weekend Television and Television South.

"I believe ITV companies are undervalued," says Mr Londoner who points to a compound 19 per cent a year growth in ITV revenue over the past 10 years compared with 13–*14 per cent in the* US. Britain's ITV companies were worth between eight to 12 times 1987 estimated earnings, compared with 16 to 30 times for US broadcasters.

"It doesn't mean 'the Americans are coming' but I believe that some people are having a look," Mr Londoner pointed out. Mr Richard Dunn, managing director of Thames said he was certain that a US company was in the market buying Thames shares. The number is not yet close to the 5 per cent mark where not only would the purchaser have to be disclosed but the Independent Broadcasting Authority (IBA) informed. The IBA has an effective right of veto on changes of ownership of ITV shares above 5 per cent.

There is a growing view that the Government is unlikely to implement the recommendation of the Peacock Committee which would put ITV franchises up for auction to the highest bidder. The Government decision to extend existing franchises by two years guarantees existing franchises, and potential revenue at least until the end of 1991.

In September stockbrokers Kleinwort Grieveson argued that ITV companies offered excellent growth prospects



UK NEWS

Warning of power shortages in 1990s

By Maurice Samuelson

ONE OF Britain's leading suppliers of power station equipment has warned that unless new coal-fired power stations are ordered immediately there could be a risk of electricity shortages in the 1990s. Also, UK plant manufacturers could go out of business through lack of orders.

The warning comes from Northern Engineering Industries, which shed 5,800 jobs last month in the latest of a succession of sweeping rationalisations. It reflects mounting suspense among contractors about the report on the Sizewell nuclear project, expected to appear before Christmas, and its effect on future power station orders.

NEI, in a ten-page "informal" discussion document, says that if no new power stations are ordered soon: the CEGB would be unable to discharge its obligations to avoid power disconnections; UK contractors would have to run down their operations "to a point from which it will be almost impossible to recover"; skills would be dispersed and export markets, currently worth £800m a year, would be lost; and plant might have to be imported which "could easily amount in time to £1bn a year."

Davy secures chemical plant contract in US

BY TONY JACKSON

DAVY CORPORATION, the UK engineering contractor, is to build a $200m chemical plant in the US for Standard Oil. Davy is also giving Standard Oil an exclusive licence to the new technology which will be used in the plant.

Davy said the agreement involved a lump sum payment from Standard for access to the technology, a royalty on sales, and Davy's right to design and build any further Standard plants around the world using the same technology.

The US plant will produce a combined 100,000 tonnes a year of three fairly specialised chemicals – gamma-butyrolactone (GBL), tetrahydrofuran (THF) and 1,4-butanediol.

Mr Peter Waite, a director of Davy, said: "GBL is the basis for a group of chemicals which go into toiletries like Alberto VO5 and Grecian 2000, and it's growing at around 6 per cent a year. THF goes into elastomers like Lycra and Spandex, while butanediol, if it's cheap enough, can lead to the engineering plastic, PBT. That's a new thermoplastic, which we think has very good potential for the car industry."

All three chemicals will be derived from the intermediate chemical maleic anhydride, which Standard claims it can now produce very cheaply through a new process of its own.

Mr Waite said: "The deal broadens our technological base as a contractor. The advantage is that by combining our abilities with Standard's, we can take a very normal chemical like butane through a number of interesting routes. It could eventually take us from fundamental chemical production to contracting work for final products like carpet fibres, and that's new territory for Davy."

Standard Oil's chemical division, based in Cleveland, Ohio, has manufacturing sites at Green Lake, Texas and at Lima, Ohio.

Takeover deals top £10bn

BY DAVID GOODHART

THE VALUE of all reported acquisitions for the first three-quarters of 1986 has already topped £10bn according to the Department of Trade and Industry.

The £2.8bn figure for the third quarter of the year was less than half the exceptional figure of £6.3bn for the second quarter. This was lifted by the Guinness takeover of Distillers and the Hanson Trust takeover of Imperial Group.

The third-quarter figure is the second largest quarterly figure ever recorded. The number of companies or subsidiaries actually acquired in the third quarter was 207 the highest quarterly figure since the fourth quarter of 1973.

The running total for the first three quarters of 1986 is 443 companies or subsidiaries acquired for a total of £10.48bn. Mr John Kay, professor of industrial policy at the London Business School, has estimated that the bid costs for these deals – underwriting costs, capital and stamp duties, advertising expenses and fees – has come to about £500m this year.

There were 43 acquisitions in the third quarter valued at more than £10m which came to 89 per cent of the total value of bids for the quarter. Over half the value was accounted for by the six largest deals led by Peninsular & Oriental Steam Navigation's £362m bid for Stock Conversion.

Bomb fears tighten security in Dublin

By Hugh Carnegy

THE IRISH Government says it is taking seriously a threat by a protestant paramilitary group in Northern Ireland to launch a bombing campaign in the republic from the first anniversary of the Anglo-Irish agreement next Saturday unless Dublin pulls out of the accord. It is tightening security and intelligence work.

The threat, accompanied a claim of responsibility by the so-called Ulster Freedom Fighters (UFF), an illegal sub-group of the legal Ulster Defence Association, for the planting without warning of four small explosive devices in Dublin on Friday night. Two of the devices, left in dustbins, exploded.

The bombs confirmed Dublin's long-standing fear that Loyalist groups opposed to the accord would at some time take their violence south.

Mr Alan Dukes, the Justice Minister, reaffirmed Dublin's commitment to the Anglo-Irish agreement and welcomed as "important and very positive" a weekend speech by Mr Tom King, the Northern Ireland Secretary, outlining changes aimed at improving confidence in the judicial system among the minority Nationalist community.

UK NEWS

Thatcher to air defence doubts with Reagan

BY PETER RIDDELL, POLITICAL EDITOR

MRS MARGARET THATCHER, the Prime Minister, will later this week discuss with President Reagan the reservations of Britain and other European countries about some of his ideas on the elimination of ballistic nuclear weapons which he put forward at the Iceland summit with the Soviet Union last month.

Mrs Thatcher will fly to Washington on Friday. After meetings with administration officials that evening she will hold discussions on Saturday with the president at Camp David, before returning to London that evening.

Mr George Younger, the Defence Secretary, said yesterday that she will make clear the "slight differences" between Europe and the US and the worries of West Germany over shorter-range ballistic missiles. He claimed, however, that British-US relations were at their best for some time which enabled such points to be made.

Interviewed on independent television, Mr Younger said Britain's concern was about certain "aspirations" for eliminating nuclear weapons which had not been spelt out. But he said great progress had been made in ironing these differences out.

In particular, Mr Younger said it was necessary to look at the total balance of weapons. Britain would be "happy to go along with" a 30 to 50 per cent reduction in ballistic missiles in the first year, as discussed in Iceland. He noted that the Soviet Union had agreed to the exclusion of British and French weapons.

But Mr Younger said Britain believed that there could be no question of reaching a zero balance in such ballistic missiles without substantial reductions in conventional weapons on both sides en route, as well as the elimination of chemical and biological weapons. He was sure the US would take these views fully into account.

He emphasised that in any talks about the complete elimination of strategic systems it was necessary to be satisfied that there would not be an imbalance of conventional weapons.

Mr Younger repeated the British view that anything further than general research into the strategic defence initiative by the US, such as space testing and development, would require renegotiation of existing treaties with the Soviet Union.

Alice Rawsthorn assesses the USM on its sixth birthday

Big Bang casts a cloud

THE UNLISTED Securities Market (USM) can celebrate its sixth birthday today with a clear conscience. In the six years since dealings began, the USM, which recently recruited its 500th company, has achieved everything, and more, than its mentor, the Stock Exchange, expected of it. Yet its sixth birthday falls at one of the most critical points of the USM's short life.

Perhaps predictably, it is the Big Bang and the changes it has introduced to the pattern of trading in the London securities industry that is at the root of the USM's problems. Yet there are two schools of thought in the City of London on how problematic deregulation will prove to be.

The pessimists paint a gloomy picture for trading in the shares of small companies after the Big Bang. In a more competitive environment the securities houses will, they argue, concentrate on the larger, more profitable transactions generated by shares in big companies to the detriment of the smaller stocks quoted on the USM.

The optimists counter that trading in the smaller USM stocks has always been illiquid and will be no better, or worse after the Big Bang. The prospects for the larger, more active stocks may even improve given that more market makers may emerge to deal in their shares.

In the approach to deregulation the pessimists' views were borne out. Some institutional investors withdrew from small company investment altogether; others remain committed to the market but have rationalised their holdings. The Prudential Corporation, for example, the USM's largest institutional investor, now invests in one in three, rather than one in two, new issues.

Similarly, the flow of companies graduating from the USM to a full listing has accelerated. Many of these companies cited concern about liquidity as their reason for graduation. There has also been a perceptible trend for new issues which, theoretically, would seem better suited to the USM to plump for the main market. The drug stores chain, Lloyds Chemists, for example, initially considered a USM flotation but went public with a full listing last week, as will the fashion manufacturer Miss Sam holdings, this week.

THE USM OVER SIX YEARS

	Flotations	Capital raised £m	Rights issues £m	Market capit'n £m	Graduations to full listing
1980	23	12.6	1.5	–	–
1981	63	75.2	12.0	–	–
1982	62	82.1	35.4	1,239	7
1983	88	195.7	56.4	2,361	9
1984	101	193.2	68.4	2,853	25
1985	98	257.4	86.6	3,424	11
1986*	73	229.3	137.9	4,220	19

* until September 30
Sources: County Securities, Hoare Govett, Touche Ross.

The pessimists had also expressed concern that there would be a paucity of market-makers, for USM shares after the Big Bang. Even County Bisgood, the only jobber to have made markets in all USM shares, threatened to rationalise its activities if liquidity suffered.

Since the Big Bang the picture has become rather more clouded. To the relief of the optimists more USM market makers have emerged, chiefly in the form of the stockbrokers, such as Capel Cure Myers, Chase Manhattan and Phillips & Drew, which act as sponsors to the market. Meanwhile County Bisgood has, according to its director Mr Brian Winterflood, reviewed the situation and decided, for the time being, to continue to make markets in all USM stocks.

Every USM company began the deregulated era with at least two market makers for its shares. Most fall into the gamma category of trading. 14 of the larger, more active stocks including Applied Holographics, Central Television and the Parkfield Group have become 'Betas'. Perhaps perversely the only publicly quoted Delta companies – the category in which shares are least frequently traded – come from the main market and not the USM.

Yet the pace of trading in USM shares, and indeed in most small company shares, has been distinctly sluggish. Market makers report low turnover in the two weeks since the Big Bang, compared with a tangible increase in turnover of the larger Alpha stocks on the main market, and of distinct lack of interest on the part of institutional investors.

"The last two weeks have been very quiet on the USM," said Mr Winterflood. "But the market itself has been in turmoil. Perhaps once things settle down and we establish a regular pattern of trading, interest will pick up again."

The problem of sluggish trading has been compounded by concern about the prospects for new issues on the USM. On October 27 the Stock Exchange introduced revised rules for new issues. The new rules were intended to make it cheaper and easier for companies to raise capital on the stock market. Thus far all the reforms seem to have achieved is to create confusion among USM sponsors – a group of which has lodged a formal complaint with the Stock Exchange – and to have encouraged larger USM candidates, such as Lloyds and Miss Sam, to head for the main market.

This departure of larger companies to a full listing could be accompanied by a move of smaller companies to the Third Market which the Stock Exchange proposes to introduce early next year as a junior tier to the USM. The accountants, Touche Ross, predicts that companies with pre-tax profits of less than £500,000 will opt for the Third Market and those with more than £1m to the main market, leaving the rest to the USM.

Human errors blamed for computer snags

By David Thomas

COMPUTER DISASTERS, when a company's computing system stops operating, are a serious problem for British businesses, according to a new survey.

Some 51 big accountancy practices responded to the survey, which was carried out by Datasolve, the computer services subsidiary of Thorn EMI.

Computer disasters among their client companies in the past five years were experienced by 28 per cent of the firms. The main reasons for the disasters were given as staff errors or disruptions such as fires.

Two-thirds of the firms said that disasters in their client companies could have been prevented.

Ensuring that stand-by computers can take over at short notice was seen as the most important means of protection. Others included storing data off-site and protecting against fires and explosions.

Profitability in Britain improving

By Janet Bush

BRITAIN has generally been less profitable than other developed countries over the last 30 years but the performance gap has narrowed in recent years, according to the Department of Trade and Industry's British Business magazine.

International comparisons of profitability are difficult because of the differences in statistical methods between countries. But a comparison of net profit shares, the net operating surplus as a percentage of net value added, shows Britain's performance is now similar to those in other Organisation of Economic Co-operation and Development countries.

One notable feature is that the net profit share of Britain's non-financial corporations is now higher than in the US and France. In the industry plus transport sector, Britain's net profit share is now higher than West Germany's, although this is partly because of North Sea profits.

Figures for 1955-1984 show that rates of return declined in most countries over the period to around 1980 but then recovered.

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LUXEMBOURG IN THE NEWS

A report for international decision-makers ■ II/86

Luxembourg's growing contribution to the development and scope of international capital markets

BY KARL GRUEN

The role of many financial institutions in intermediating between lenders and borrowers has been altered significantly during the past five years, and this process has not yet reached its end. Liberalization measures in a number of major financial centers and the emergence of new financing instruments are at the root of these changes. "Marketability" of both assets and liabilities is the key word. Consequently, "securitized" lending is gaining in importance against the once dominant syndicated loan business.

Such developments are having a dramatic effect on the structure of the balance sheets and profit and loss accounts of most international banks. Growth in classical Eurolending has been slower in recent years compared with the booming seventies. Yet, the income of the vast majority of Luxembourg-based banks held up well against the problems of worsening country risks and deteriorating lending margins.

A Bank of England compilation of international banking figures by centers shows that the share of international bank lending of the three largest banking centers together (London, New York and Tokyo) has been falling during the last two years, from over 50 percent in 1983 to 48.4 percent in 1985 (end-September), and this despite a strong growth of loans booked in Tokyo. The major rise was in the share of continental European centers, among them Luxembourg. By volume on the books the latter now ranks fifth among the leading international banking centers, after the United Kingdom, the United States, Japan and France.

It is from such a base of strength that Luxembourg-based institutions continue to diversify into fee generating activities. Not only have they been able to change their funding ratio between non-bank and bank deposits (from 1:8 in 1979 to 1:4 in 1985), but they also have increased their non-interest income by more than 65 percent from 1982 to 1985. While the former fact indicates a distinct rise in private banking activities, the latter reflects partly a growing importance of securities-related transactions.

Substantial Eurobond Activity

Except for 1982, the number of Eurobond issues with a Luxembourg participation in the syndicate has constantly been over 20 percent of the total. The continuing weight of these commitments was again mirrored in last year's underwriting statistics.

The important role of Luxembourg in the Eurobond market did not emerge by accident. Damien Wigny, executive director of Kredietbank S.A. Luxembourgeoise and until recently chairman of the Association of International Bond Dealers, stresses three direct contributions by Luxembourg to the success of the Eurobond market: "imagination, placing power and a strong presence in the secondary market." By no means does such a claim appear exaggerated.

As for new ideas, new techniques and new instruments introduced to improve the flow of funds from lenders to borrowers, Luxembourg banks were prominently involved from the inception of the Eurobond market. What is generally recognized as the first ever Euro issue, a 5 million Unit of Account bond issue for the Portuguese company Sacor, was launched by a Belgo-Luxembourg group in 1961. Later in 1963, when the Eurodollar bond as such was born in the form of the famous US $ 15 million 15-year issue for Autostrade of Italy, it seemed only natural at that time that the five-strong management group included a bank from Luxembourg. In 1981, the first ever ECU bond deal, an issue for Softe, subsidiary of STET (Società Finanzaria Telefonica per Azioni), the Italian state company of the telecommunications industry, was brought to the market by a Belgo-Luxembourg group. Ever since, Luxembourg-based institutions have continued to play leading roles in developing the ECU. This is illustrated by the fact that in 1985 the ECU was the fourth most used denomination in the international bond markets after the US dollar, the Swiss franc and the D-mark.

For Luxembourg banks to be in the forefront of so many new issues also reflects an international recognition of their extraordinary placing capacity, both with institutional and with private investors. In particular, they maintain close contacts with medium-sized insurance companies and pension funds. In addition, what is usually called inhouse placing has significantly gained in importance during recent years.

Volker Burghagen, managing director of Compagnie Luxembourgeoise de la Dresdner Bank, summarizes the reasons behind Luxembourg's popularity with the wealthy international investor under these headings: "Legislation on bank secrecy, existence of a full universal banking system, no minimum reserves, no VAT on gold, no disturbing tax regulations for foreign customers, an efficient banking supervision, political and social stability, no sudden and tough changes in the legal environment relevant to investors – in short, a high degree of reliability."

Luxembourg Investment Funds
(in billions of Luxembourg francs)

	1980	1981	1982	1983	1984	1985
Total						
Number	76	81	87	99	152	177
Total value	118.4	168.4	189.3	303.3	398.0	632.3
Mutual funds						
Number	34	40	45	52	67	84
Total value	74.9	112.6	124.9	176.9	246.9	359.7
SICAV						
Number	–	–	–	2	20	41
Total value	–	–	–	8.4	40.9	100.2
Others						
Number	42	41	42	45	45	52
Total value	43.6	55.8	64.4	118.0	110.2	172.5

Source: Luxembourg Monetary Institute

242 Investment Funds

A further indication of Luxembourg's importance as a turntable for the funds of private investors is the growth of the investment fund sector. The number of these funds registered in Luxembourg reached 242 by the end of June 1986.

In addition to a growing involvement in the management of these funds, Jean Pierson, member of the executive committee of Banque Paribas (Luxembourg) S.A., observes that Luxembourg institutions supply the full range of services necessary to administer and run investment funds. He adds: "The availability of direct computer connections ensures efficient communication between administrator, adviser and manager." Pierre Jaans, head of the Luxembourg Monetary Institute, has welcomed the growing number of investment funds as an enrichment and a diversification of the financial center of Luxembourg and indeed calls it "a trump in the international financial environment marked by a shift of activity from the traditional syndicated credit activity to a market for a wide range of bonds and other marketable instruments."

Luxembourg Banks in Public Eurobond issues

	1981	1982	1983	1984	1985
All currencies					
Issues where Luxembourg banks participated in the underwriting syndicate					
Volume	5,297	7,125	10,060	16,769	35,532
Percentage of total	21.8	16.3	22.7	23.4	26.6
Issues quoted on the Luxembourg Stock Exchange					
Volume	11,058	20,928	27,366	40,987	84,158
Percentage of total	45.4	47.9	61.9	57.3	65.3
ECU					
Issues where Luxembourg banks participated in the underwriting syndicate					
Volume	208	680	1,575	2,604	4,262
Percentage of total	100.0	100.0	91.9	100.0	62.4
Issues quoted on the Luxembourg Stock Exchange					
Volume	208	680	1,714	2,604	6,585
Percentage of total	100.0	100.0	100.0	100.0	96.3

Source: Luxembourg Monetary Institute

Luxembourg's Stock Exchange

The health of any market must always be judged by the existence of a liquid and smoothly functioning secondary market. Regarding the Eurobond market in particular, Luxembourg has from the beginning been contributing substantially to the provision of such a secondary market. One important formal pillar for the transparency of the Eurobond market is indeed provided by the listing facilities of the Luxembourg Stock Exchange. Its 45 page official price list gives quotations for almost 4,000 securities, some 87 percent of which are for Eurobonds denominated in 20 different currencies or currency baskets. All in all, two-thirds of the volume of all public Eurobond issues representing issues for more than 1,600 different borrowers from 55 countries are Luxembourg-listed.

Compared with a global secondary market turnover in excess of US $ 2.5 trillion per annum the actual turnover on the stock exchange is certainly less impressive. Eurobond transactions are done mainly in a dealer market provided by market makers who themselves communicate electronically all over the world. Moreover the president of the Luxembourg Stock Exchange Commission and general manager of Banque Générale du Luxembourg S.A., Jean Meyer, points out that by looking as well for "beyond deals for size only" and by serving the small end-investors, the Luxembourg Stock Exchange is providing a particular market segment with essential liquidity.

Luxembourg contributes significantly to the smooth development of the international bond market. With 60 member banks of the Association of International Bond Dealers the Grand Duchy is, next to the United Kingdom and Switzerland, one of the most important regions of the Association.

Practically all sectors of the Eurobond market are thus being served from Luxembourg. But there are, of course, certain market sectors for which international dealers cannot but regularly call on Luxembourg names when they try to establish going prices. Among these are bonds denominated in ECUs, D-marks, Japanese yen, and Dutch guilders.

As barriers between domestic and international markets are coming down and new investment and lending techniques are being developed, the infrastructure of the international capital markets needs constant improvement and adaptation. Here again, a Luxembourg-based organization is in the forefront of progress. Cedel, one of the two major international securities clearing houses, has, since its inception in 1970, made a remarkable contribution to the development of cross-border transactions.

The Role of Cedel

Owned by 100 institutions from 16 countries, it directly serves almost 1,700 participating banks, brokerage houses and other financial institutions located in 60 countries by eliminating physical transfer of securities between sellers and buyers on a worldwide scale. Cedel also provides a number of ancillary facilities linked to the settlement of cross-border transactions. More than 15,250 issues are now being cleared through Cedel. They include Eurobonds, floating rate notes and convertible bonds, Yankee bonds, US treasury bonds, Samurai bonds and Swiss franc foreign bonds, German domestic bonds, Euronotes, Eurocommercial papers and certificates of deposit issued in London, New York, Luxembourg, Hong Kong and Singapore as well as internationally traded equities and gold bullion. At end-June 1986 some US $ 131 billion worth of issues were held by Cedel under central administration. Turnover in 1985 reached US $ 762 billion.

Of particular importance, according to Cedel chairman and member of the executive board of Banque Internationale à Luxembourg, Edmond Israel, is the fact that Cedel is the main central safekeeping and clearing institution for financing instruments denominated in ECUs. Furthermore, he underlines "the double role of Luxembourg as a banking center within the global market as well as the financial capital of the European Community."

The coming of age of the ECU

The ECU market is growing to impressive size. The use of the ECU as a unit of account in international transactions has increased rapidly during the last four years. *Future growth prospects look bright.* Luxembourg – from where the first ideas for a "European Currency" originated and where ever since imaginative applications of the concept of a European basket currency have been intensely cultivated – is set to benefit from a further substantial broadening of worldwide interest in the development of the ECU.

Nothing demonstrates the success story of the ECU better than a recent advertisement in a U.S. publication under the headline: "The ECU has a future in New York." Sixteen years after Pierre Werner, the former prime and finance minister of Luxembourg, vigorously advocated the concept of a European Currency Union there are still as many currencies within the European Community as there are members. But far beyond any official progress towards full formal recognition of the child that later, in 1979, was christened "European Currency Unit" (ECU), market forces have started to adopt the idea with overwhelming enthusiasm.

Already in its 1985 Annual Report the Bank for International Settlements was prompted to state: "In view of the high degree of diversity of the ECU market and its broad institutional underpinning, there can be little doubt that the use of the ECU will be a lasting feature of the international financial markets." How well established a phenomenon the ECU has become, at least among professional and institutional participants in the international capital markets, is highlighted by the following observation of Jean Krier, member of the executive board of Banque Internationale à Luxembourg: "Not long ago," he remarks, "most people had to resort to their calculators in order to arrive at the going interest rates for ECU-denominated paper by weighting the various basket components. Today, ECU yields and their spreads, although related to those of component currencies, are increasingly considered as having their *own existence.*"

At present, the ECU consists of fixed quantities of the currencies of ten of the twelve European Community member states. Those of Spain and Portugal are expected to be included in the basket by 1989. These quantities depend on a number of periodically reviewed criteria related to basic economic factors.

Although the weight of the component currencies in the basket as well as the actual market value of the ECU are linked to currency fluctuations, the relative stability of the ECU in a world of highly volatile foreign exchange rate markets is widely acknowledged. This is, of course, not only the result of administrative EMS rigidities, but also of the fact that the ECU represents a mix between stronger and weaker currencies. The ECU, in its own way, reflects the economies of a major region of the globe which are gradually converging.

ECU: A Brief Survey

Although a limited number of private transactions were pioneered before 1981, the ECU did not receive much more than *the benefit of curiosity* by banks outside Luxembourg until this date.

Since then, the role of the ECU as an investment and lending currency has systematically been broadened, not least with the active support of Luxembourg-based institutions, including the European Investment Bank.

The use of the ECU in the international banking market has been growing impressively since 1982. Bank assets have always been higher than liabilities suggesting that the difference is being funded with ECU component currencies directly. At the same time, the use of the ECU in the international bond market literally exploded.

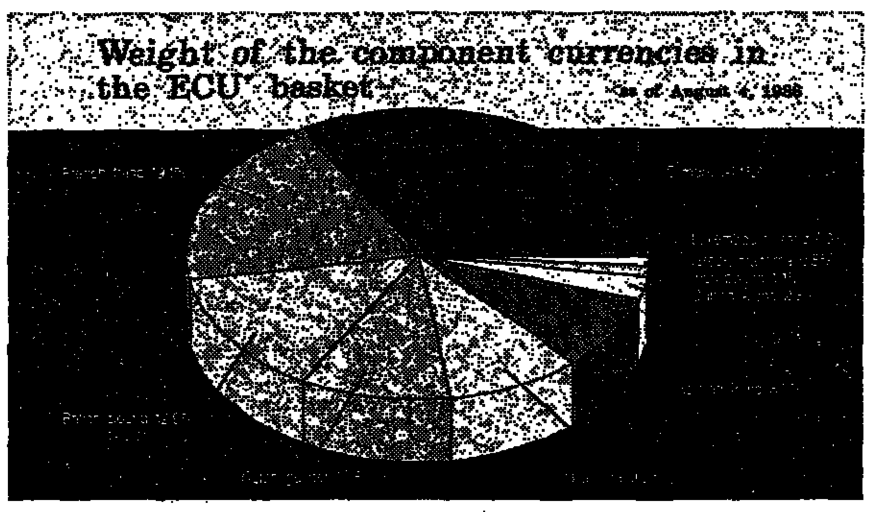
The Growing Use of the ECU in the International Banking Market
(loans and deposits, banks and non banks, in US $ billion)

	Assets	Liabilities
December 1982	6.5 e	5.5 e
December 1983	11.9	10.9
December 1984	28.2	22.3
March 1985	37.1	29.9
June 1985	38.8	33.4
September 1985	46.6	42.4
December 1985	54.5	48.5
March 1986	61.4	54.9

e – estimated. Source: Bank for International Settlements; ECU Newsletter.

each day. More and more portfolio managers in various countries have been converted to place larger parts of their assets under management in ECUs. ECU borrowers, who up to now predominantly are names from Italy, France and the European institutions, are increasingly coming from Japan, Scandinavia, the United States and Australia as well.

Moreover, a clearing system of the ECU set up by various banks has been functioning since October 1, 1986.



This development was accompanied by a proliferation of available instruments both in the Euromarket and in a number of domestic capital markets. In addition to conventional straight issues and among available instruments, appeared ECU floating rate notes, ECU zero coupon bonds, ECU paper with participation warrants and convertible bonds, ECU issues with extendable maturities and issues with adjustable bonds. At the short end of the market, ECU certificates of deposit, both fixed and with floating rates, have frequently been launched.

In the money market, the number of banks actively participating is estimated to have reached several hundred with approximately a dozen acting as market makers. The ECU is bought and sold spot and forward against practically all other convertible currencies, an additional feature being the beginning of thriving ECU futures and ECU options trading.

At present, a widely spread opinion is that the role of the ECU could be further extended not only as an investment and trading vehicle, but also as a means of invoicing commercial transactions. Thanks to increased acceptance of the ECU by private and corporate users, the basket currency is receiving growing official recognition.

Luxembourg banks have always been among the most enthusiastic protagonists of a development which now has reached a phase when the internationalization of the ECU is becoming more obvious with each day.

Growing ECU Appeal

It is only natural that along with such a growth and diversification of the market the ECU cannot remain the sole property of any particular financial center. So far, business has been concentrated mainly in five countries, France, Belgium, Luxembourg, Italy and the United Kingdom, with the United States and Japan also showing encouraging signs of increased interest in developing the ECU market.

While banks in Italy account for the bulk of total bank claims on non-banks, while banks in the United Kingdom specialize in the interbank market and banks in France are in a somewhat intermediate position, banks in Belgium and Luxembourg account for a very large share of total ECU cross-border lending to non-banks and at the same time attract a sizeable amount of ECU deposits from non-banks. Investment portfolios and deposit accounts of investors of all sizes with Luxembourg banks are indeed proof that, as ABBL president Remy Kremer puts it, "the private investor strongly believes in the future of the ECU."

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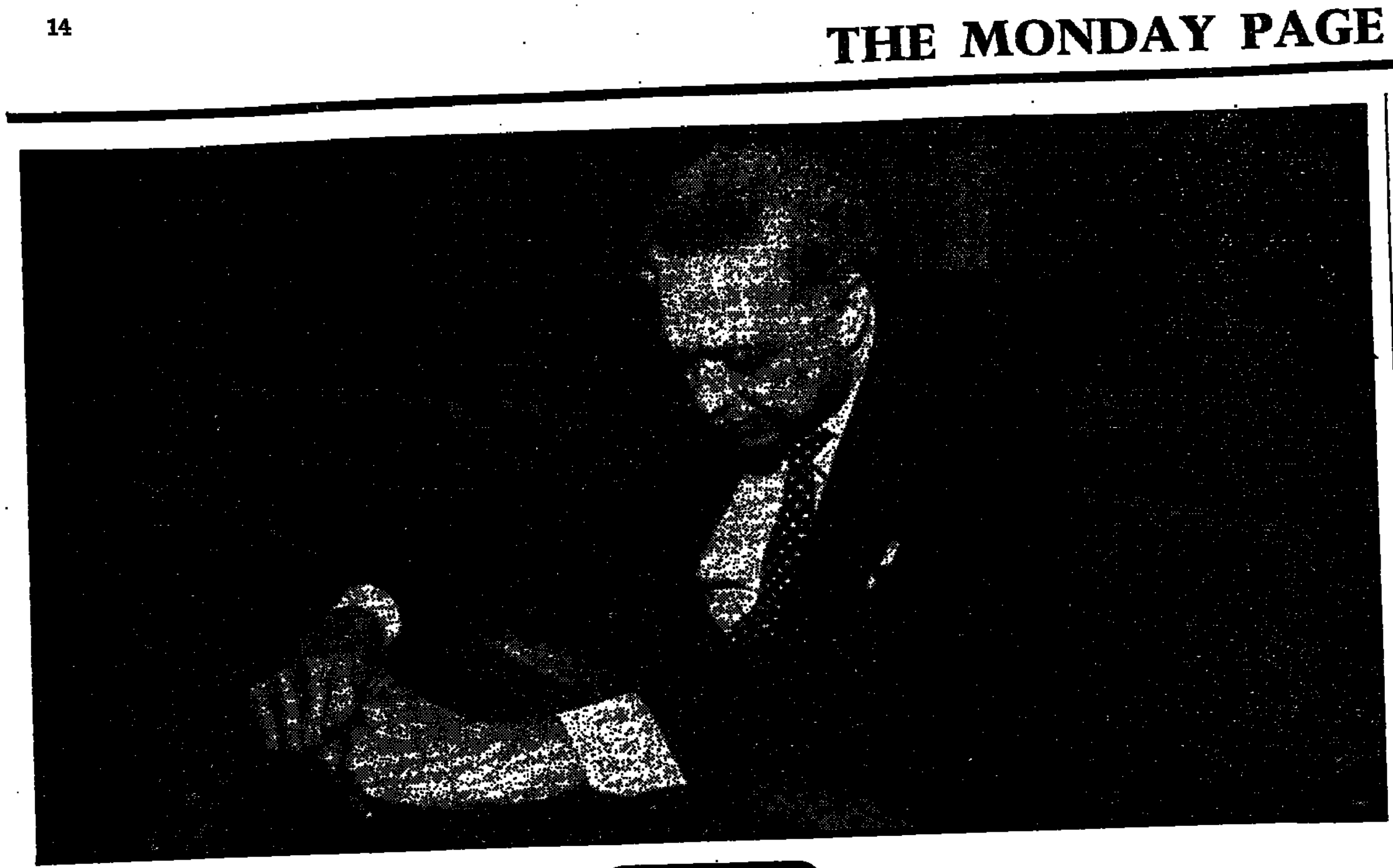


INTERVIEW

Bringing down the house

Preacher and GM director Leon Sullivan has made himself the conscience of US business in South Africa. He talks to Terry Dodsworth

IT IS the Sunday after General Motors and IBM have announced their withdrawal from South Africa, and in black Philadelphia the Rev Leon Sullivan, the most distinguished US clerical campaigner against apartheid, is in the mood for celebration.

He stands at the pulpit in an uncompromising preacher's church. The semicircle of pews and the balcony facing him are packed with at least 1,000 worshippers, in their Sunday best. Behind him the choir is swinging to the rhythm of a hymn which sounds as plaintively painful as the blues. Emotion is soon flowing palpably through the church as the congregation responds to the performance with cries of Amen and outbreaks of applause.

Leon Sullivan is 6 ft 5 in tall, an imposing man whose athletic prowess helped him win football scholarships through university. He towers over the expectant congregation, a white-haired Baptist preacher with a message which reaches beyond Christianity to embrace the fight for racial justice and equality. Today, after years of struggling against partheid, he brings the sermon to a triumphant conclusion with an oratorical climax which would have done justice to Martin Luther King.

"When we initiated our effort in South Africa ten years ago," he cries, "people said discrimination would stay for another 300 years. But they didn't realise that God was there. . . . When GM decided to get out of South Africa, God lifted the mountains and said: Leon, walk. And when IBM decided to get out of South Africa, God lifted the mountain again and said: Leon, walk. He has heard our payers. He said: Leon, walk — and I'm walking."

To see the Rev Sullivan in this setting, jumping from the pulpit to march through his congregation as the choir breaks into yet another incantatory chorus, is to realise why he has been such a force in the black movement for three decades. The church gives him roots. It provides the inspirational support and the organisational backing that makes consistent, long-term action a practical proposition.

"The black movement depends a lot on black ministers because they have the freedom and the independence to act," he says. "I am not a businessman and I am not a philospher or educator. I am a black Baptist preacher who believes that his cause and his mission is black advancement and emancipation."

At the Zion Baptist Church on Broad Street, Philadelphia there is no question that this mixture of religion and black activism has been a potent force. The church lies in the middle of a poor working-class district, the largest and by far the richest-looking building on a street where every second structure seems to have been spawned by the great black American preaching tradition—the Tower of Pentecost, the Cathedral of Deliverance, the Greater Exodus Baptist. Joe Frazier, the former world heavyweight boxing champion, came from here, and has his gym in a tatty building a mile or so from Zion.

When Sullivan arrived at the church 36 years ago, it had a congregation of 600. Today it has a membership of 6,000, is reckoned to be one of the largest black churches in America and takes a collection every Sunday which runs into several thousands of dollars. On all but the wettest of Sundays people flock to hear the Rev Sullivan's oratory in such numbers that they are standing in the aisles.

Zion's size, wealth and prestige are one of the factors behind his influence in the black movement. But to a larger degree, his prominence, and his position as the second most controversial black clergyman after the Rev Jesse Jackson, rest on his work in the white man's business world. Since 1971 he has sat on the board of General Motors, the largest company in the world: and, with the full weight of GM behind him, he has become the leading policy-maker on apartheid for American business in South Africa.

This policy is enshrined in the so-called Sullivan Principles, a set of guidelines for responsible corporate action in South Africa first developed almost ten years ago. Impregnated with the belief that the South African Government can be reformed from within without violent confrontation, the Principles are clearly the work of a political moderate who shuns uncontrolled conflict.

They lay down rules for equal treatment of black South African workers — the abolition of segregated facilities, equal pay, the possibility of advancement to managerial levels, trade union rights and education — which are aimed at undermining apartheid by first eradicating it in the workplace.

In such a politicised arena as the black rights movement in America, it was inevitable that Sullivan's code of practice should have attracted both criticism and controversy. For the radical anti-apartheid groups who want to shake the South African Government through US corporate divestment, this gradualist approach is seen as a sell-out to corporate America. It is easy to attack Leon Sullivan as a capitalist tool, the token black man on the GM board who has been lured into condoning continuing US investment in South Africa.

The radicals are right, indeed, in arguing that the Principles have provided an effective moral justification for companies refusing to divest their South African interests. About two-thirds of the 300 or so US corporations with investments in South Africa have signed the Principles, and they frequently deflect criticism by pointing to the fact that they are operating according to the code.

Yet Sullivan, who had himself been an early proponent of disinvestment, advocating withdrawal at GM's shareholders' meeting in 1971, when he was already a director of the company, has no problem in justifying the Principles.

"At the centre of the Principles was the idea of the empowerment of the black worker, because I believe that if you educate the black man and empower him through his trade union, you begin a powerful force for change."

His conversion to this approach was a natural evolution from the social work he had been doing in America. Sullivan had been convinced of the rightness of linking the cause of black advancement to his Christian faith. After a spell at Columbia University in New York, he worked briefly in Harlem, the city's black ghetto, with Adam Clayton Powell, the first black Congressman. "Jesus said feed the hungry, clothe the naked and provide shelter for people who have no homes. That is economic and social together, and the mission of Jesus as I see it is to help people on Earth."

In the 1950s and 60s his activism led inevitably to the Civil Rights movement, and a confrontation with the US economic structure that was to have a profound effect on his work and ministry. He organised a product boycott of Philadelphia employers accused of discriminating against blacks — an extremely effective attack, it turned out, in a city with such a large black population. But when the employers caved in, he realised that many of the people he had been fighting for lacked the skills that would enable them to keep a decent job.

This recognition led to an initiative which marked him out as a moderate among black leaders, willing to work within the economic system. Starting in an empty Philadelphia gaol with money borrowed on his house and from any available source, he set up a training programme which has become the largest of its kind in the US. Today, after proving its worth in Philadelphia, it embraces 100 cities. It has, he says, trained a total of 9,000 blacks, and put 7,000 in jobs.

Meanwhile, in the limited sense of the amount of support they have garnered, the Principles have been a success. But judged in the light of what they set out to do—to help destroy apartheid — the controversy over the code is likely to continue.

Sullivan, naturally, sees things very differently. The Principles, he says, have to be accepted for what they were intended to be. But where he concedes that they have not worked is in widening their appeal to other foreign companies in South Africa, and in making any visible impact on the South African Government. The original idea of the code was to make it steadily more radical in its drive against segregation, finally forcing companies to denounce apartheid categorically. The overall corporate sector in South Africa has not moved far enough or fast enough along this path.

The moves by GM and IBM are helpful at this time, he adds, because they deliver a message to the South African authorities that time is running out for US companies in the country "unless the pillars of apartheid are dismantled." He clearly recognises that the only hope for the gradualist approach in South Africa is to administer the regime a short, sharp shock of this kind. If the Government still does not listen, he will fulfil his promise, announced more than a year ago to call for a complete economic embargo of South Africa from May 31 next year.

The sermon that he thunders from the Zion pulpit as a fundamentalist Baptist minister sounds just as convincing today as all the tidy pragmatism of the Sullivan Principles. It is a message full of the optimism of faith and the certainty that freedom is achieved only through suffering. "I want you to know," he tells his congregation "that God is in everything that is happening in South Africa . . . He is testing the black man . . . and one day our people will be free."

● PERSONAL FILE

1922 Born Charleston, West Virginia. Education: West Virginia State College. Union Theological Seminary, New York. Columbia University, New York.

1950 Pastor, Zion Baptist Church, Philadelphia.

1964 Launch of Opportunities Industrialisation Centres—a nationwide training programme for blacks.

1971 Director, General Motors.

1977 Launch of the Sullivan Principles.

I'm afraid it's just not croquet

BARRY RILEY

INSTITUTIONAL clients are almost in paradise, able to deal in large size and on diminutive spreads, but the fear is that it is all too good to last. At some stage the market makers will have to begin making some money.

Two weeks after Big Bang the glare of publicity is still upon the frailty of the Topic computer system (with another two brief failures on Friday) and upon the administrative problems within the settlement process. Weekend working was bad enough in the pre-Big Bang dress rehearsals, but Saturday's emergency call to sort out mismatched bargains did not go down at all well with the market's practitioners.

But the settlement problems appear to be due to a general lack of familiarity with amended procedures rather than with any catastrophic failings of the new systems of any particular member firms. These difficulties should prove only temporary. Yet the emerging trading patterns within the new market structure could prove to be of more enduring significance.

The main feature, market participants agree, is that trading by institutional fund managers net of commission directly with market makers has caught on much more rapidly than anticipated. There is a big question mark over the future of agency broking, for a commission.

Another important, and associated, feature has been the very rapid depopulation of the Stock Exchange's trading floor. The success of telephone trading has led to an almost complete movement by market makers to "upstairs" trading rooms. The Stock Exchange's £3m investment in improvements to the trading floor now looks very doubtful wisdom; by the same token its plan to recoup part of this expenditure by charging a hefty entry fee for agency floor dealers appears distinctly optimistic.

That the market should develop in this way is not at all surprising, but it was not so easily predictable that it would happen so quickly.

Of course, the exchange's decision to run a trading floor at the same time as a new screen-and-telephone trading system amounted to a straightforward hedging of bets. If the telepones were jammed, the floor would be there. It was never very realistic to argue that the two ssytems could coexist in the long run.

Similarly most of the major broking firms decided to offer an agency service as well as a direct market making faciiity. It was prudent to offer clients both alternatives while uncertainty existed. But the big securities firms took care to build flexibility into their structure, and they will no doubt be considering whether to adjust their allocation of resources.

But these are still very early days. There are signs that the institutional fund managers are enjoying flexing their muscles in a way that may not be such fun when the novelty wears off. "Vengeance is sweet," answered one fund manager last week, explaining his reluctance to pay separate commisisons. This was his chance to hit back, after years of lining brokers' pockets.

A quite different view came from another institutional investor, who complained that neither he nor the agency brokers had a feel for the market in the same way that they enjoyed under the old system. Indeed, there was a fear that the agency arm of a market was not in a position to broke the market properly.

Perhaps this would change as the brokers became more familiar with the inner workings of the new market. But for the time being it seemed more logical to deal directly with the market makers.

There is a difference here between the majority of leading securities firms which have decided to act separately, both as agency brokers and market makers and the two big firms—James Capel and Cazenove—which have confined themselves to the agency role. There are indications that these firms have struggled a little, although not so much as the agency arms of the dual-service firms where the internal conflicts have proved damaging.

So the fund managers are enjoying themselves. In gilt-edged the spread has often dropped to a sixteenth against a quarter of three-eighths in the old market, and individual trades of more than £100m have been completed. In leading equities it has often been possible to deal "choice" in size, that is, at the same price either way, and the spread has rarely been more than a penny or two. Commissions on agency business have fallen by 40 or 50 per cent from pre-Big Bang levels.

But it is doubtful whether this can last for long. The market makers' blood may not yet be flowing in the streets, but it must be trickling down their desks. The institutions know that they must not take too short term a view, or the market will begin to disintegrate.

Apart from anything else, they have made agreements to allocate a certain volume of agency commission to qualify for low rates. Typically, a guarantee of £250,000 of commissions in a year will be rewarded with a rate of 0.2 per cent, £100,000 with 0.25 per cent.

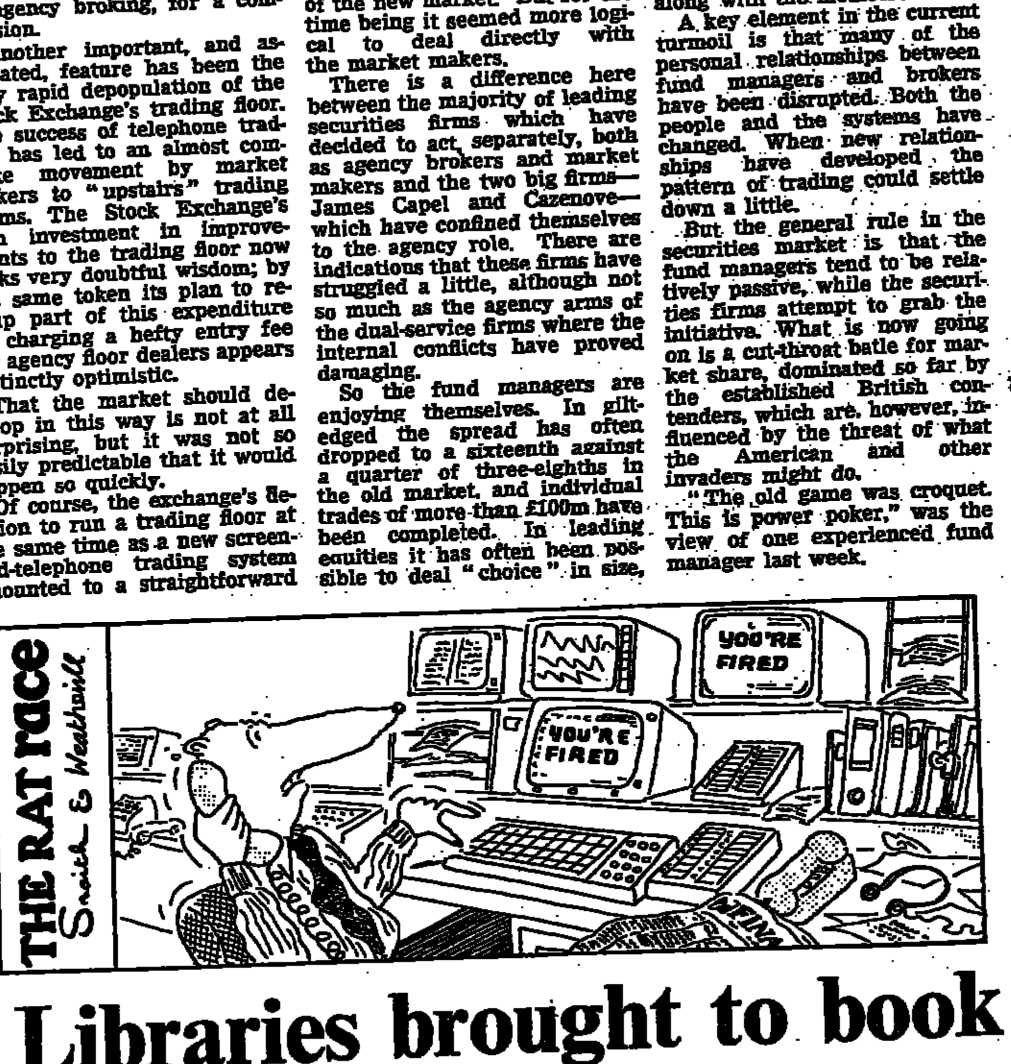
But if they are not doing the expected volume of agency business the question arises whether they will qualify for the finest rates after all. That could lead to a re-emphasis on commission-bearing transactions, or perhaps just to a renegotiation with hard-pressed brokers.

In the short run the managers know that the research material will continue to flow, whatever happens. They would not be unhappy to see a cut in the volume. But disorderly conditions could see the good research teams being disbanded along with the mediocre.

A key element in the current turmoil is that many of the personal relationships between fund managers and brokers have been disrupted. Both the people and the systems have changed. When new relationships have developed, the pattern of trading could settle down a little.

But the general rule in the securities market is that the fund managers tend to be relatively passive, while the securities firms attempt to grab the initiative. What is now going on is a cut-throat batle for market share, dominated so far by the established British contenders, which are, however, influenced by the threat of what the American and other invaders might do.

"The old game was croquet. This is power poker," was the view of one experienced fund manager last week.



Libraries brought to book

JUSTINIAN

THERE HAS BEEN a first reaction of extreme joy at the Queen's Bench Divisional Court's decision in *Regina v Ealing London Borough Council ex parte Times Newspapers Ltd and Others, Regina v Hammersmith and Fulham London Borough Council ex parte Times Newspapers Ltd and Others, Regina v Camden London Borough Council ex parte Times Newspapers Ltd and Others.* The Independent Law Report of November 6, 1986 covered the case as did the Times Law Report of November 6, 1986. Yet the delight may need to be modified after a cool examination of the legal issues involved.

The factual background to the proceedings for judicial review was the decision of those local authorities, as library authorities under the Public Libraries and Museums Act 1964, to ban from their public libraries all copies of The Times, The Sunday Times, The Times Educational Supplement, The Times Higher Education Supplement, The Times Literary Supplement, the Sun and the News of the World.

The decision was a gesture of sympathy and solidarity with the views and activities of employees, their unions, the union leaders and representatives in an industrial dispute which had arisen after the transfer of newspaper production to Wapping, a consequential strike and many resulting dismissals.

The basis of the Divisional Court's ruling that the library authorities' ban was unlawful was that in all the circumstances it was an abuse of their statutory powers. The court therefore had the right and duty in the proper exercise of its discretion to grant the remedy of judicial review and declare the ban illegal.

The library authorities' relevant duties and powers are contained in the 1964 Act.

Section 7(1) of this Act provides that: "It shall be the duty of every library authority to provide a comprehensive and efficient library service for all persons desiring to make use thereof."

The Act does not confer complete autonomy on local government in this report, but specifies the supervisory functions of central government.

Section 1(1) provides that: "It shall be the duty of the Secretary of State to superintend and promote the improvement of the public library service provided by local authorities in England and Wales, and to secure the proper discharge by local authorities of the functions in relation to libraries conferred on them as library authorities by or under the Act."

Section 10 of the Act contains powers enabling the Secretary of State to investigate whether any library authority has failed to carry out its duties to the public library service. The investigation takes the form of a local inquiry.

After the inquiry, the Secretary of State is entitled to make an order declaring the authority to be in default and to order it to carry out its duties as a library authority in the manner and time specified.

Under Section 10(2) of the Act, if a library authority fails to comply with any requirement of the order, the Secretary of State may make an order transferring the library authority's functions relating to the public library service to his own department.

All these provisions seem to create a comprehensive procedure for dealing with any defaults or defects by library authorities.

Why did not the Divisional Court in its discretion refuse the remedy of judicial review on this occasion and suggest that the applicants take steps or make a complaint to the Secretary of State under section 10(1)(a) of the Act so as to enable the procedure prescribed under the Act to be used?

The reason is that the Divisional Court treated the ban not so much as a breach of the library authorities' duty under section 7 of the Act as an abuse of their powers. The decision to impose the ban was regarded as an abuse of power because of its ulterior object. It was inspired by political views which caused those authorities to use their statutory powers so as to interfere in an industrial dispute. In deciding to impose the ban, the authorities had taken into account an irrelevant factor.

By this reasoning, the Divisional Court was able to consider the process by which the library authorities made their decision to ban the various newspapers and periodicals, and to declare the decision unlawful because of errors in that process, although in the course of his judgment Lord Justice Watkins said that there were powerful indications that the ban involved a breach of section 7.

Towards the end of his judgment, Lord Justice Watkins condemned vigorously the conduct of the library authorities and concluded that there could hardly be a clearer manifestation of an abuse of power.

It may be prudent to treat this as a special decision due to the unusual facts at issue.

The doctrine of abuse of power, like that of public policy, may be regarded as likely on occasion to be an unruly horse. And unruly horses are out of place in courts of law and justice. Libraries are best left to librarians and readers.

FINANCIAL TIMES SURVEY

Monday November 10 1986

Florida

Optimism about the state's future is fuelled by increases in the population, in commercial activity and the number of jobs. However, Florida will have to cope with greater pressures on the infrastructure and environment.

America's 'dream state'

APOLOGISING FOR "sounding like a Texan" as he outlines Florida's growth potential, Mr Charles Zwick, chairman of Southeast Bank, the state's largest, is not alone in finding it hard to be pessimistic about the future of what President Reagan recently described as the "American dream state."

Stimulated by a staggering population growth, estimated at up to 1,000 new arrivals a day, Florida is booming. In the decade between 1974 and 1984 its population rose almost 32 per cent compared with 10.7 per cent for the US population as a whole, according to figures published by the state's Commerce Department.

Last year alone the population increased by 3.4 per cent compared with 0.9 per cent for the whole US, employment by 5 per cent against 3.75 per cent, and personal incomes by 8 per cent against 6 per cent. This year Florida will lag behind only California in the rate of population growth and may well *outpace California in new jobs* and housing starts.

While growth rates have eased and are likely to slow further as the nation as a whole slips into an expected recession towards the beginning of 1988, the upward trend shows no sign of slackening.

Mr Zwick expects the state's population, now 11.7m, to rise by a further 29 per cent to 15m by the end of the century, moving Florida up from sixth to third largest US state behind California and Texas.

Some 3m jobs will be created—a 61 per cent increase—and personal income boosted by 54 per cent in the same period, he said.

But the strain that this pace of expansion is putting on Florida's over-burdened roads, sewerage and water supply systems, on its prisons, schools, hospitals and social services—not to mention its already fragile environment—is causing concern and division within the state. It has added a new note of urgency to calls for considered growth management and led to a debate as to who should pay for necessary improvements in the infrastructure.

About 90 per cent of Florida's population growth comes from people moving into the state, according to Mr Henry Fishkind, president of M. G. Lewis Econometrics at Winter Park.

By Charles Hodgson

But whereas Florida used to draw its newcomers largely from retired folk it is now attracting younger people in ever-increasing numbers. While the state has by far the oldest average population in the US—18 per cent are over 65—the largest and fastest-growing group is between 25 and 44.

The state has one of the country's fastest rates of new business incorporation. Its low taxes (Florida has no state income tax), below-average wage rates, low unionisation (the state has the oldest right to work law in the US, passed in 1944) its pro-business government, climate and quality of life have combined to become a powerful magnet to individuals and companies seeking to move from depressed areas, particularly those in the north and north east.

Its geographic location, between the great bulk of the US and South America, has made it a centre for trade with Latin America and the Caribbean islands.

Florida is, of course, not the ony state to bask in the shift of the economic spotlight from rust-belt to sun-belt. Others in the south east and south west like California, Arizona, Nevada and Texas (before the oil slump) have also benefited.

But Florida has a number of advantages over its rivals. It is growing faster than most. Its economy, while remaining primarily trade and services oriented, is diversifying rapidly from a traditional three-way dependence on agriculture, tourism and construction into light manufacturing, particularly of high technology products, and into banking and financial services.

Some question whether the unchecked growth does not risk creating conditions that many thought they had left behind when they came to Florida—congested roads, increased pollution and rising inner city crime.

Florida's 1,350 miles of coastline and proximity to Latin America and the Caribbean islands make it a natural landing point for drugs. Mr Leon Guinn, assistant regional commissioner at the US Customs in Miami, estimates that up to 75 per cent of the cocaine smuggled into the US this year will come through Florida.

While the government has increased the manpower and financing to combat drug smuggling, Mr Guinn does not see an end to the battle. "The violators can always out-resource us," he says. Miami with its geographical position and ethnic mix of population is the natural "cocaine centre" of the US, Mr Guinn says.

Although Miami produces figures showing a decline in all categories of violent crime except murder, it concedes that most crime remains drug-related. Miami has made serious attempts to clean up the problems including a tough crackdown on street sales of drugs, but violent crime remains an everyday fact of life, particularly in the city's poorer districts.

So accustomed have Miamians become to their city's image that some business leaders and politicians attempt to cash in on the way it is presented in the popular Miami Vice television show. "It shows the drugs and violence here, but it also shows the beauty and wealth of the city," says Mayor Xavier Suarez.

Although the traditional industries, particularly tourism (the state expects over 30m visitors spending nearly $20bn this year) are still important, the economy is losing its former roller-coaster character.

This has coincided with a sharp decline in construction because of a glut in the commercial property market and a series of harsh frosts that wiped out over a quarter of Forida's profitable citrus groves.

Mr Zwick feels that the closer interlinking of Florida's economy with the national economy that this diversification brings may make the state more vulnerable to the effects of a nationwide recession than in the past. "That is the one thing that could pull the plug if it got so bad as to stop immigration," he says.

Mr Fishkind agrees: "If interest rates get so high that people can't sell their houses up north, they don't move," he says. But he points out that Florida has useful buffers against recession, notably the [illegible] of dollars in pensions, medicare and savings brought in by retired folk, estimated at up to 22 per cent of the state's $151.2bn total personal income.

But a slowdown in growth is exactly what some people would argue the state badly needs simply to catch up the backlog on infrastructure and [illegible].

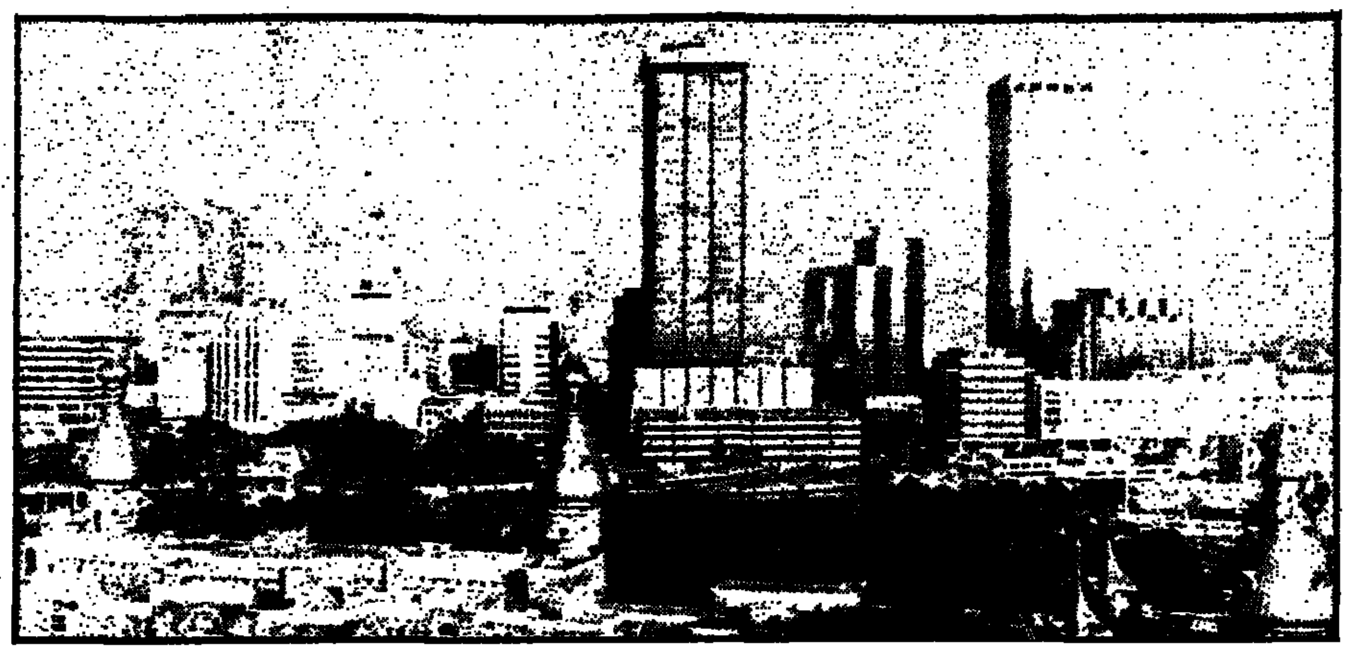
At the end of last year the state government introduced comprehensive legislation toughening state and local planning restrictions on beach-front development and calling for an improved infrastructure.

Mr Zwick, formerly a budget director in the Lyndon Johnson Administration, was appointed to head a commission to look into ways of raising revenues to fund the $50bn to $70bn backlog. The commission's report will look at short- and long-term [illegible]. In the short term it might suggest an increase in petrol taxes, road tolls and other "user fees" like airports and seaport taxes.

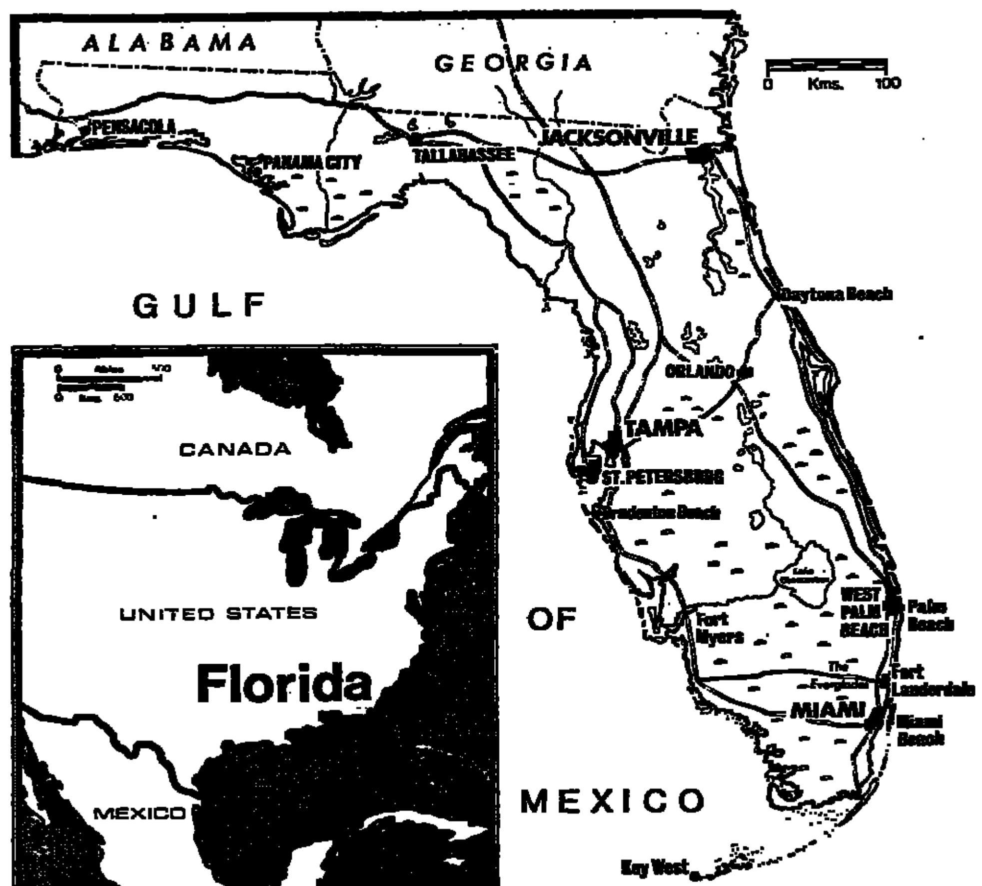
The debate over who should pay the increased taxes is pitting against each other Florida's old and young populations or, as Mr Stephen Morrell, an economist at Southeast Bank, puts it: "Those who came here to protect their wealth and those who have come here to create wealth."

Younger residents demand more schools, universities, public hospitals and better roads while those that are working are better able and probably more willing to pay for improved services.

At the heart of the controversy is a state tax system devised, ironically, to attract newcomers. In this sense Florida has become a victim of its own success.



Downtown Tampa. The city's skyline has changed rapidly with the construction of many new buildings including the 42-storey Barnett Plaza and 22-storey Ashley Tower. Tampa also has a monorail system.



Florida's largest banks

First six months 1986 earnings ($m)

	Assets	6 months 1986 net income	% change on year	Provision for loan losses	Non-performing loans	As % of total loans	Return on equity	Return on assets	Branches	Employees
Suntrust Banks	18,827.1	102.7	+14.4	44.4	120.5	1.00	18.71	1.12	482	15,873
Barnett Banks	15,192.5	74.3	+24.0	38.1	114.8	1.10	17.33	0.97	381	15,060
Southeast Banking	10,774.0	40.8	+51.9	27.5	207.5	3.08	14.73	0.76	162	6,929
Florida National Banks	6,344.7	27.2	−56.0	14.1	140.4	3.33	13.46	0.83	170	4,695
First Florida Banks	4,307.9	22.8	+6.0	5.7	26.5	1.00	16.00	1.15	132	3,800

Research: Rivka Nachoma.

Banking

Widespread battle for market share

FLORIDA IS richly served by financial institutions. There are close to 400 commercial banks, with 2,400 branches competing for $70bn in deposits and a whole raft of local savings banks which control another $70bn of deposits.

This is more than the combined deposits of the next three biggest neighbouring states — Virginia, Georgia and North Carolina. Florida's rapid growth, and increasingly diversified economy, has made it one of the most attractive banking markets in the US with small one-office institutions battling for market share alongside such out-of-state banking giants as Citicorp and Chemical Bank.

Ten years ago Florida was a highly fragmented banking market. Southeast was the biggest bank with 9.8 per cent market share, followed by Barnett with 7.9 per cent, Sun, 6.1 per cent, Flagship with 5.8 per cent and the rest with 65 per cent. Since then Sun has acquired Flagship and merged with Trust Company of Georgia.

Its market share has more than doubled since, to 12.7 per cent, while Barnett's share has risen to 17.7 per cent and Southeast's share has risen to 10.9 per cent. NCNB, from the neighbouring state of North Carolina, has become a major force in the local market and the share of the smaller banks has slipped to 44 per cent.

All of the state's biggest banks emphasise their Florida connections. The Jacksonville-based Barnett Banks, advertises itself as "Florida's Bank," and Miami's Southeast Bank bills itself as "Banking on Florida's future." The Jacksonville-based Florida National Banks reminds its customers that "Florida is our middle name," while the Tampa-based First Florida Banks refers to itself as "Florida's namesake."

Florida is easily the most important southeastern state and its local bankers do not miss an opportunity to remind newcomers that it will soon be the third biggest state in the union and its population is expected to grow by 5m between 1982 and the year 2000. Over the last three years its population has been growing at three times the national average and there is no obvious reason why this growth should slow.

Southeast Bank says that more than 1,000 people a day move to Florida, enough to create a city the size of Tampa once a year. Of the 20 fastest-growing metropolitan areas in the region, 18 are in the state and employment growth, a key measure of the strength of any local economy, is growing twice as fast as the national average.

In this sort of banking market it would be surprising if the local banks were not making handsome profits. Barnett Banks, the state's biggest bank and the fifth biggest in the southeast, has increased its earnings by 22 per cent in the first nine months of 1986 and says that its long-term target is to increase earnings by between 12 and 18 per cent a year.

Southeast Banking Corporation, which used to be the biggest banking group in the state and is recovering after a rather rough patch, boosted its third quarter net income by 22 per cent and increased its loans by 10 per cent.

The heady growth rates of Florida's local banks has not escaped Wall Street's attention and the shares of most of the major institutions are accorded a premier rating as long-term growth stocks.

Barnett Banks is definitely the stock favourite. Its shares stand at more than twice book value, yield 2.3 per cent and sell on a multiple of over 12 times historic earnings. This rating is probably the best of the major south-eastern banks and compares with the rating of a well run money centre bank such as Citicorp, whose shares are selling at roughly book value, yielding 4.9 per cent and selling at 7.2 times earnings.

Barnett has stood out among the regional south-eastern banks by remaining aloof from the rash of inter-state banking mergers which has swept the region over the last 18 months and has stressed its Florida roots. The group says that "an interstate merger is not precluded but it must be as attractive as opportunities available within Florida."

This is not to say that Barnett is nervous about getting involved in mergers. Local acquisitions have played a key role in its rapid expansion over the last decade and it is in the process of trying to acquire two Florida savings institutions, which will tighten its grip in several key markets.

Barnett expects to be able to boost its assets from their current level of about $16bn to $30bn by 1990 by staying within the state. Its strategy contrasts with that of Orlando's Sun Banks which merged with the Trust Bank of Georgia in mid-1985. Suntrust banks has leap-frogged Barnett to become the third-biggest banking group in the south-east and stresses the importance of the Florida/Georgia marketplace which should boast 24m people by the end of the century, making it second only in size to California. Southeast Bank, which describes itself as Florida's premier bank, has flirted with the idea of merging with an out-of-state bank and even considered combining with Barnett, which would create the biggest group in the region. However, nothing has developed to date and Southeast is concentrating on its Florida home market for the time being.

The same goes for the two smaller groups, Florida National Banks and First Florida. The former has done a deal under which it has agreed to be taken over by New York's Chemical Bank if and when the law allows. First Florida remains independent, profitable and well-managed but could fall prey to a predator prepared to pay a handsome premium to its current $30 a share price.

William Hall

Politics

Balance changed by immigration

FLORIDA'S RAPID population growth is leading to profound changes in the state's political as well as economic character.

The traditional hold of the Democrat party over state and local politics is being steadily weakened by the phenomenal rate of immigration.

Put quite simply, more of the 1,000 new arrivals entering the state each day vote Republican than Democrat. Over the past nine years, the Republicans have gained 12 percentage points at the expense of the Democrats among voters identifying themselves for one party or another, according to Miss Anne Kelly, an associate professor of political science at the University of South Florida in Tampa.

Official state figures show that of the 5.3m voters registered in 1984, 3.2m were registered Democrats and 1.7m Republicans. But given the large number of unregistered voters, a better indication of the state's political make-up can be gauged from a 1985 survey carried out by Florida State University. It found that 35 per cent of those polled regarded themselves as Democrats, 35 per cent Republican and 30 per cent independents.

This compared with a similar survey by the university in 1980, when 45 per cent of those polled said they were Democrats. The Republicans are drawing their increased support from a number of sources.

The more recent newcomers have tended to be wealthier and more conservative and there has been a noticeable rise in the number of retired servicemen and women moving into the state. A larger number of people in the 25-44 age range (the fastest-growing age group) are moving in to take advantage of fast-expanding business and banking opportunities.

In addition the Hispanic community, which forms 9 per cent of the population, has rallied firmly behind the Republicans' strong anti-communist stance in relation to the US's southern neighbours.

In addition, Florida's youth is coming of age during the strong resurgence in national pride identified with the Republican party under Mr Reagan.

The state's Democrats were so used to their predominant role that a unified state organisation was formed only in 1970 in response to Republican inroads during the 1960s.

Their traditional sectors of support, including blue collar retirees and blacks, have not been growing at a rate sufficient to offset the Republican advance.

A gradual realignment appears to be taking place within the political parties. Conservative Democrats are moving to the Republican ranks. Although some Republicans are moving the other way, most of the traffic is at the expense of the Democrats.

The first inroads made by Republicans came in when counties receiving large numbers of migrants from the north. These advances were consolidated in the 1960s with the adoption of single-member districts, designed to give minority groups, like Hispanics and blacks, a fairer representation in the state legislature, and giving urban areas a better balance with rural districts.

Nevertheless, Florida has continued to return a majority of Democrats to state and local office — until the November 4 election, only one Republican has been elected governor this century, Claude Kirk in the late 1960s.

The state has however continued to vote consistently for Republican candidates in presidential elections since 1948, with only two exceptions, Texan Lyndon Johnson in 1964 and Jimmy Carter from neighbouring Georgia in 1976.

Miss Kelly believes it will be five to ten years before the cumulative effects of the changes now taking place seriously affect the Democrats' control over state and local politics.

The growth of Florida as a state of exiles has played an important part in shaping the style and content of the state's political debate.

Up to 80 per cent of the population was born outside the state and 30 per cent has moved in within the last ten years.

The ideological conservatism of Democrat candidates has tended to make them largely indistinguishable from their Republican opponents and voters have decided on the basis of tone and presentation rather than on issues or party allegiance. Candidates have found it hard to establish an identity for themselves that would allow voters to differentiate, without running the risk of being regarded as extreme.

The problem has been compounded by the absence of a single dominant centre in the state. There are a number of centres each with its own concerns and problems — Miami, with its recent history of drug-related crime; Orlando, the tourist haven; Jacksonville, now styling itself Florida's business city; and Tampa, billing itself as America's next great city, not to mention Tallahassee, the state capital, exuding all the sleepy charm of the Old South.

No one newspaper or television station has emerged either with sufficient authority to speak for the state.

A split is emerging between elderly Floridians (18 per cent of the population is over 65, compared with 11 per cent nationally) and the new younger migrants, whose need for better infrastructure is greater, over howthe money to fund improvements in infrastructure is to be raised and who should pay.

The issue does not only affect Florida. Mr James Naisbitt, the economic forecaster, argued in his bestseller Megatrends that since Florida's age structure today resembles closely the pattern expected nationally by 1995, the way that the state settles its internal conflicts will be a pointer to the future for the nation as a whole.

High technology

Growth pinned on key industry

HIGH TECHNOLOGY has rapidly become one of the key industries on which Florida is pinning its future growth.

The state already leads its southern US neighbours in the size of the industry by a wide margin and ranks seventh largest in the nation. According to a new report published by the University of Miami, Florida has the potential to become the fourth-largest high-tech state behind California, Massachusetts and Texas by 1995.

The reasons for the industry's rapid expansion lie largely in the presence of the Kennedy Space Centre, the heavy build-up in defence spending under the Reagan Administration and the development of the growing biomedical sector.

The state's high-tech industry is located in three distinct geographic regions. These the report identifies as the "Space Coast" in east central Florida, stretching from Daytona Beach in the north to Melbourne and reaching inland as far as Orlando; the "Computer Coast" running from Miami north to West Palm Beach; and "Technology Bay" covering the Tampa Bay and St Petersburg area.

Of these, the Space Coast, with its heavy preponderance of defence and space-related companies manufacturing missiles, satellites, computers and military communications equipment, is growing fastest. Employment here has been expanding at an annual rate of 12 per cent for the past 10 years. Some 36 per cent of Florida's 149,000 high-tech workforce and 20 per cent of its 1,614 companies in 1984 were located in the region.

More than 99 per cent of the state's missile and space industry is housed in this "magic triangle," including Harris Corp, Florida's largest manufacturing employer which has 11,000 of its 14,000 employees in the region; McDonnell Douglas, which employs 2,000 at its missile plant in Titusville, Martin Marietta, which employs 12,780 at its Orlando plant manufacturing defence systems for missiles and aircraft; Rockwell International's Collins division at Melbourne, employing 900 in the manufacture of communications and flight control systems; and ITT which employs 400 at its Cape Canaveral plant.

In addition, Lockheed, McDonnell Douglas, Grumman, United Technologies and Pan Am all have subsidiaries linked to service of the Space Shuttle fleet at the Kennedy Space Centre.

The Computer Coast accounts for 39 per cent of Florida's high-tech employment. Chief among the products manufactured are personal computers—IBM has an 8,000-strong workforce at its Boca Raton plant—medical and bio-medical equipment, such as pacemakers, and semiconductors.

The industry has felt the worldwide slump in electronics most keenly here and workers at Burroughs, Racal-Milgo, RCA and Paradyne have fallen victim to hiring freezes, layoffs and even plant closures.

Mr William Cullom, president of the Greater Miami Chamber of Commerce, is confident that continuing strong demand for medical and bio-medical equipment from the growing number of medical centres and hospitals in the Miami area will boost the flagging industry. He notes the importance of the Florida International University as a centre in encouraging research and joint projects with industry.

The University of South Florida is hoping to play a similar role in attracting high-tech companies to the Technology Bay area around Tampa, where 25 per cent of the state's high-tech employment is located. The main products manufactured here include defence electronics and avionics, telecommunications equipment and computers. Several well-known companies such as General Electric, Sperry, Honeywell and E-Systems are major employers in the area.

Despite the slump in the market for computers and semi-conductors, most analysts agree that the outlook for the industry statewide looks promising. The generators of future growth will continue to be those of the past: the space programme and the defence industry.

The space programme is set to resume in February 1988 with the first Space Shuttle launch since the loss of Challenger in January this year. The US also plans to launch its first manned space station in 1992 to be built by Nasa and a consortium of British, Japanese and Canadian companies.

Nasa's involvement could run as high as $8bn. "A lot of that work would have to come to this area," says Mr Hank Taylor of the Cocoa Beach Chamber of Commerce.

He sees exciting possibilities too in the growing interest in commercialisation of space. A recent report by the independent Paine Commission concluded that US companies may spend anything up to $60bn on such projects by the year 2000.

"They have to come here," Mr Taylor insists. "Kennedy (Space Centre) is the launch point. They do not have anywhere else to go. The biggest challenge is going to be to find a place for all the companies to be located," he added.

In the nearer term, the resumption of Space Shuttle flights should lead to a pick-up in activity at the Space Centre by next summer, Mr Taylor says. Mr Dick Young, Nasa spokesman, says that 2,200 of the 16,000 workforce had been laid off since the disaster.

From a purely commercial viewpoint, the Challenger accident had at worst caused an "unfortunate hiccup" in the space programme. Nasa awarded contracts worth $77.6m to companies in Florida during fiscal 1985. The total benefit to the state's economy from new and continuing contracts was $810m during that fiscal year, according to Nasa figures.

Mr Taylor sees more danger to the Space Coast from possible cuts in future defence spending under the Gramm-Rudman budget balancing act, which calls for across the board cuts if Congress and the President cannot agree on expenditure levels.

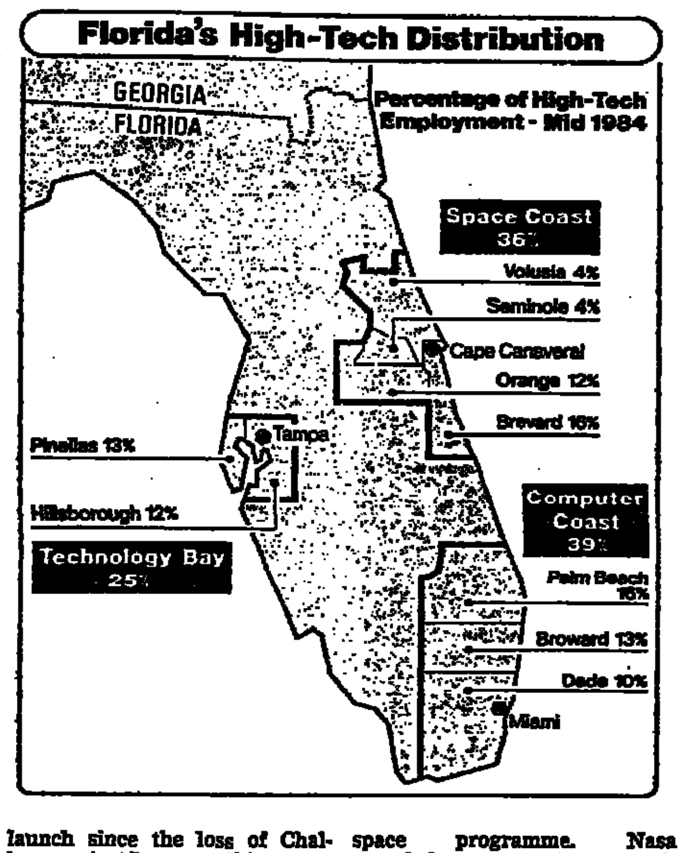
"That could have a very definite effect on the defence industry by slowing down the increase in defence spending," he says.

Mr John McCauley, chairman of the Brevard County economic development council, based in Cocoa, predicts a further shake-out in the computer industry as the impact of worldwide over-production continues to feed through.

However, he too sees an inevitable expansion in the space programme continuing to underpin the region's high-tech expansion.

"Congress has just appropriated $10.4bn for Nasa next year, up 42.5 per cent on this year. That's a good shot in the arm for us."

Florida's High-Tech Distribution



Foreign investment

Arrivals from Europe and Japan

FLORIDA'S geographic location and well-developed communications links make it an obvious base for companies doing business with Latin America and the Caribbean. But the state is also being seen increasingly as a place for companies to serve the US market or to base their US operations.

In mid-1985, there were about 330 foreign companies from 31 countries operating in Florida, according to the state's Department of Commerce.

They are predominantly grouped in three sectors: manufacturing (42 per cent); finance, insurance and real estate (19 per cent); and retail trade (14 per cent). Other activities include transport and communications, services and wholesale trade and construction.

Foreign companies employ more than 39,000 people, accounting for just under 1 per cent of total Florida employment.

Mr Michael Alsentzer of the Florida Department of Commerce expects to see 18 new European and seven new Japanese companies set up operations in the state this year.

New arrivals have been running at the rate of 10 to 15 companies a year from Europe and about five from Japan for the past eight years, he says.

"We're seeing more interest now than this time last year." Mr Tom Slattery of the State Commerce Department says. "The value of the dollar obviously has something to do with that."

Mr Slattery says that companies in Latin American countries such as Venezuela and Peru had shown interest in setting up manufacturing facilities in Florida and that more inquiries are being received from Far East countries such as Taiwan and South Korea. These, he says, are potential growth areas.

"We are not just selling Florida as a place to do business with Latin America but as a good spot to do business with the US, especially the East Coast," he explains.

Apart from those countries that "cannot afford to stay out," principally those doing business with Latin America but as Caribbean, foreign companies are attracted to Florida for precisely the same reasons as domestic ones, Mr Alsentzer says.

Florida's rapid population growth is creating an expanding and wealthier market. The state has low taxes (there is no state income tax) and the highest per capita disposable income in the south-eastern US. Wage levels are modest (17 per cent below the national average in 1984) and the state's right to work laws have limited union representation to about 10 per cent of the workforce.

Education facilities, a key concern among employees in companies considering relocation, have been improved. Miami, for example, now offers multilingual courses to ensure that children of employees from foreign companies do not fall behind.

The state's commerce department has no estimate of the total value of foreign investment in Florida. However, the UK is the leading investor, as it is in the US as a whole. At the last count there were about 56 British companies operating in the state, including Chloride Davy McKee, Glaxo—whose Latin American regional headquarters is in Fort Lauderdale—ICI, Lloyds Bank (the biggest foreign bank in Florida), Plessey, Racal, Rolls-Royce, Smiths Industries, Tate and Lyle and Taylor Woodrow.

West Germany is the second largest foreign investor ahead of Japan and Spain.

Miami, with its huge airport, expanding port and rapid emergence as a major international finance centre, is the key to trading with Latin America and the Caribbean.

The city has rapidly become a transhipment hub where containerised cargo is unloaded, split and re-packaged for on-shipment to the Caribbean and Latin America. Mr Wade Battles, the port's marketing general manager, says that about 15 per cent of imports from Europe are now for transhipment.

The state's other leading cities are also stepping up competition for foreign investment.

The Tampa Bay area has attracted a good number of British and Japanese companies. They have been drawn by the area's diversified economy, according to Mr Larry Grossman of the local chamber of commerce, with its mix of manufacturing, wholesale and retail trade, agriculture, high-technology and tourism.

"We see a whole lot more growth," Mr Grossman says. "Between 60 and 70 per cent of all new development here can be atributed to foreign investment."

The region received a shock last month however when Siemens, the West German mechanical engineering giant, announced plans to close its $50m motor and generator plant at Bradenton, 25 miles south of Tampa.

The company, which moved its operations from Milwaukee only in 1984, told its 600 employees that its Florida operation will cease in 1988. It said falling demand for its products—chiefly high-voltage motors and hydrogenerators—and fierce overseas competition were the reasons for the closure.

International finance

Tax and banking laws an asset

THE RAPID development of Miami as an international financial centre is rooted in the city's close trading and cultural links with Latin America.

Miami is now second only to New York in the number of banks doing international business. At the last count, there were 48 foreign banks and 27 Edge Act banks—international subsidiaries of US out-of-state banks—operating there.

Total offshore funds held by the foreign and Edge banks in Miami are estimated at $15bn, an increase of about 50 per cent in the past two years, according to Mr Denis Nason, head of the Crédit Suisse operation.

Foreign banks include Lloyds, Barclays, Bank of Tokyo, Banque Nationale de Paris, Banca do Brasil, Marine Midland, Royal Bank of Canada, Deutsch Sudamerikanische, and Credit Suisse.

Proximity to Latin America, excellent transport and communications links and a large Hispanic community made Miami an obvious place for rich Latin Americans to visit for pleasure or business. As the oil boom of the 1970s took off in countries like Venezuela, investment in Miami boomed.

It also owes much of its role as an international financial centre to Florida's advantageous state tax and banking laws.

The nature of foreign bank operations in Miami has changed sharply since the Latin American debt crisis came to a head in the early 1980s, according to Mr Nigel Simpson, head of Llyods Bank's office there.

Some banks were forced to pull out but those that remained focused their attention on personal deposit-taking from high net worth customers and on developing a domestic base in the US corporate market. The Lloyds Miami office is the regional base for serving the south-eastern US.

But in the past two years renewed fears of political instability and continual devaluations in many Latin American countries have led to an increase in numbers of companies and individuals seeking to move their assets to safer havens. The same uncertainty has triggered a move by US banks to shift offshore funds held in centres like Panama and the Bahamas to Miami.

Mr Simpson sees growing sophistication among new Latin American clients who have a wider knowledge of the type of financial services available on the market and are seeking a better balance in their portfolios than investment in a single asset like real estate.

This trend is increasing competition among banks to introduce newer and more elaborate services and to an increase in the numbers of investment bankers setting up offices in Miami.

But Mr Nason sees market growth slowing down as a result of the sharp switch to interstate banking at a regional and national level in the US. Some of the advantages of Edge Act banking are being lost.

Transport

Heart of an international trading centre

FLORIDA's extensive transport network has been a major factor in the speed with which the state has emerged as an international trading centre. At the hub of this network, which includes 134 public airports and 14 deepwater ports, is Miami.

The city's international airport is the second largest in the US in both passenger and freight traffic after New York's Kennedy airport. Last year it handled 20m passengers, a 2.7 per cent increase on 1984, and 510,000 tons of freight, 0.3 per cent down. Domestic passengers presently outnumber international passengers by about two to one.

More airlines serve Miami than any other airport. At present 83 carriers, about half of them foreign, are housed there.

This year the airport opened an international container freight station, designed to boost its share of the container market. The 45,000 sq ft facility, the first of its kind in the US, is modelled on freight-handling techniques used in London and Paris. It allows containerised shipments to be unloaded, split and reassembled on one site for reshipment. Warehousing space is also available.

The airport has also inaugurated the Miami International Cargo System, a computerised cargo tracking system that automatically logs the flow of all shipments through Miami and enables government inspectors and shippers to process goods faster. It gives instantaneous retrieval of waybills, manifests and other documents.

The airport, which made a profit of $35.5m last year, plans to spend $100m over the next ten years expanding capacity, according to Mr Amaury Zuriarrain, airport spokesman. It expects to be handling up to 40m passenger and 1.3m tons of freight annually by the end of the century.

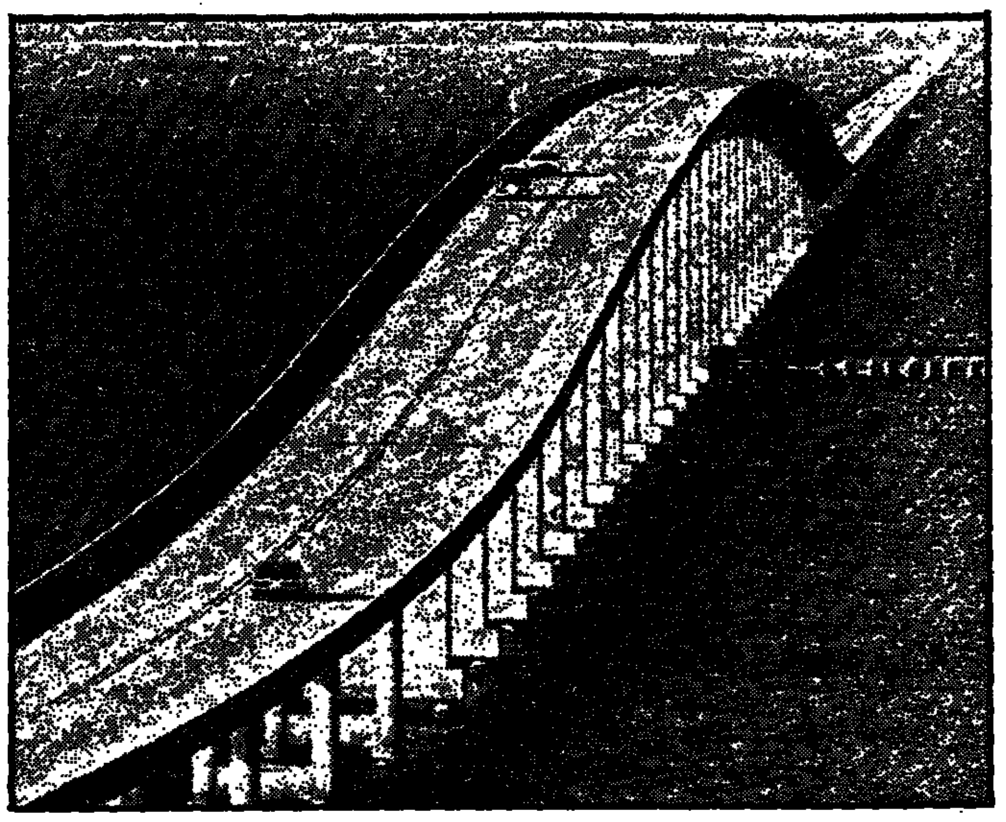
But more important than passenger figures, says Mr Richard Pudy, airport director, is to ensure that the airport's resources are being put to the best use of the community. It presently employs 72,000 people directly or indirectly and contributes over $6bn to the state's economy.

The port of Miami, already the undisputed cruise capital of the world, is also planning expansion. In addition to three new cruise terminals, the port recently brought into service the fourth in up to eight planned 40 tonne gantry cranes at its growing container facility.

The port handled 2.3m tons of cargo in 1985, nearly 2 per cent up on 1984. Mr Wade Battles, marketing manager says the improvement reflected a "settling down" of the economies of key Latin American trading partners.

He says the port, which made a profit of $17.1m last year, will be looking for an increase of between 4 and 6 per cent in cargo next year. It too will eventually be linked into the Miami International Cargo System.

The state's other main airports are also planning expansion to cope with an expected increase in passenger traffic. Tampa, voted finest airport in the world by Harper's magazine, currently handles 8m passengers a year. It is served by 26 airlines and recently opened a new facility for international airlines. Mr Larry Grossman of the Tampa Chamber of Commerce, says the airport was built with a 50 per cent expansion capability.



The spectacular Overseas Highway, which links Florida's mainland with Key West via the Florida Keys. Driving time for the 159 miles, after extensive rebuilding work, is now three and a half hours

Orlando Airport, which receives about half the tourists heading for Disney World, handles 10m passengers a year. It is served by 24 domestic and four international airlines. Jacksonville Airport handled 2.7m passengers last year, a 16 per cent increase on 1984.

Among the ports, Tampa, traditionally a bulk shipper of phosphate—Florida produces a third of the world's supply—and agricultural products, is diversifying into the cruise passenger and container markets. Port Everglades, near Fort Lauderdale, is one of the nation's top 22 container ports.

Florida's largest port, Jacksonville, is the point of entry into the US of Japanese cars. It handled 561,000 vehicles last year and bulk exports of steel, lumber and coffee totalling 14m tonnes, according to Mr Cliff Mendoza, the port's deputy managing director.

About 35,000 workers are employed directly or indirectly by the port and its payroll of $200m is estimated by the local Chamber of Commerce to generate sales of $821m.

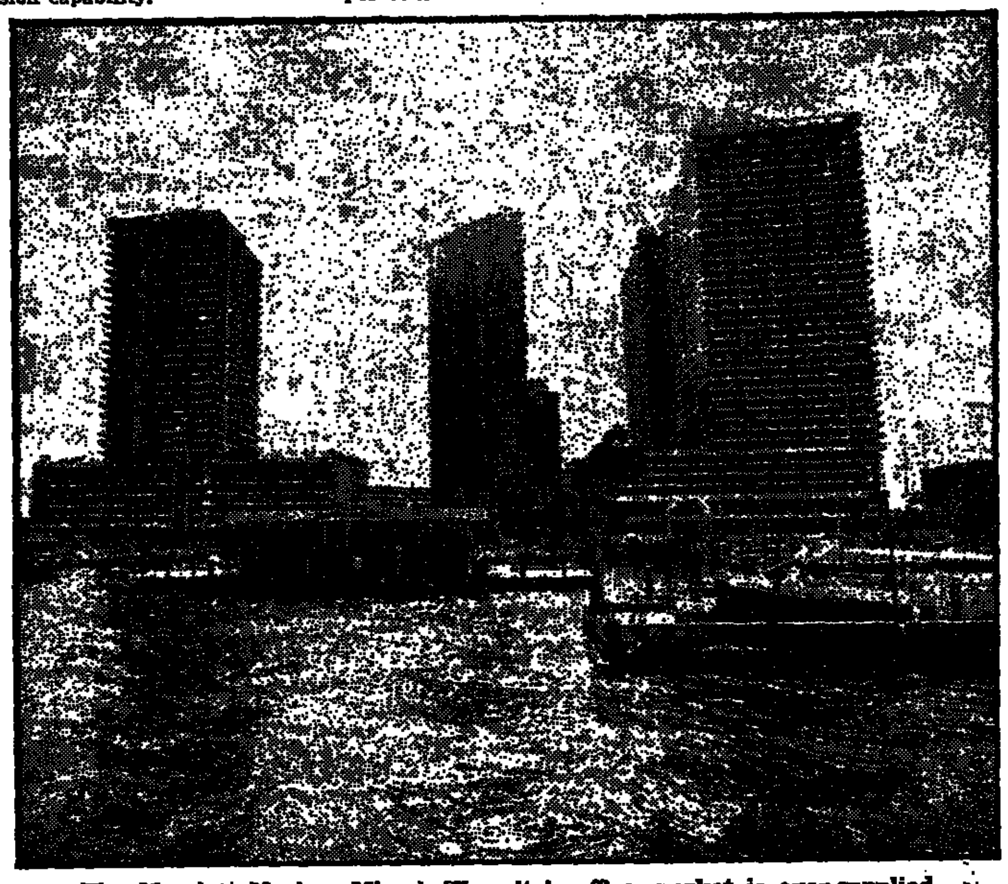
Jacksonville is also at the hub of three main rail lines. Florida has an extensive rail network served by seven freight railroads and linked to major routes to the US West Coast and industrial centres in the North-east and Great Lakes.

There are also ambitious plans for a high-speed rail link between Tampa, Orlando and Miami by 1995. Calls for tender are out and Canadian, Japanese and French companies are understood to be studying the project. Mr Richard Staziak, of the state transport department, says Florida stands a better chance than most US states of getting a high-speed link built because of the developing commercial activity around the state's rail centres.

Florida's road network is being put under strain by the increasing congestion caused by rapid population and economic growth. About 40 per cent of the highway network has severe bottlenecks, according to Mr Staziak.

Removing them will be a priority, but even to reduce the problem by half will cost an estimated $5.3bn. How much of the work gets done depends on whether new revenues are raised, he says.

Extensions of existing major routes is already under way including the extension of an interstate highway across the Everglades. The current two-lane toll road "Alligator Alley," will be replaced by four high-speed lanes.



The Marriott Marina, Miami. The city's office market is over-supplied

Property

Problems of over-supply

MR ALAN PARKS recalls wistfully the day two years ago when he counted 27 cranes silhouetted against the Miami skyline. Today, Mr Parks, vice-president for marketing at the Adler development group, counts only three.

Florida's office property market is experiencing a weakness common to many other parts of the country and resulting from an explosion of construction two to three years ago.

Oversupply is facing all the state's major business centres, although to different degrees. In Miami, the second largest office market in the south-east US after Atlanta, with more than 22.7m sq ft of space in existence and a further 3.2m under construction, the vacancy rate is 22.1 per cent—between three and five years' supply.

In the downtown area, centred on Brickell Avenue, the vacancy rate is about 24.8 per cent, compared with a 16.5 per cent national average, according to Coldwell Banker, the real estate broker.

In the Tampa-St Petersburg-Clearwater area on the Gulf Coast, the market has expanded rapidly to 19.5m sq feet and the vacancy rate is currently 25.5 per cent. In Orlando, with 12.3m sq feet and an additional 3.2m under construction or planned, the vacancy rate is 28.3 per cent.

Jacksonville, with 9.6m sq ft of space, has the lowest vacancy rate in the state at 16.6 per cent, Coldwell Banker says.

The high vacancy levels have forced developers to offer tenants attractive lease concessions with the result that effective rents are between 20 and 25 per cent below asking prices, according to Mr Harry Tangalakis, Coldwell's senior sales manager in Miami.

But despite the current glut, Florida's rapid expansion is leaving developers optimistic about the future rates of absorbtion.

Miami is expected to benefit from a pick-up in trade with Latin American nations slowly emerging from debt problems. The city is being "rediscovered" by major investors and companies after suffering for years from a serious image problem. Developments are under way to make the downtown area more attractive after office hours. Rouse, the developer of Boston's Faneuil Park and New York's South Street Seaport, is building a $93m shopping and restaurant complex, known as Bayside.

Jacksonville is looking to revitalise its downtown area too with a similar project also designed by Rouse. The $38m 125,000 sq ft Jacksonville Landing will house a "festival market" of shops and restaurants.

Oversupply of office space is not always bad news, particularly in a city like Jacksonville, which is working hard to attract new companies and investment.

"It's a bit of a vicious circle," says Rebecca Kinney, manager of economic development at Jacksonville Chamber of Commerce. "If you want to attract corporate relocations, you have to have the space available."

But the office glut is leading to "major changes" in developers' attitudes. Mr Tangalakis says: "There's been a lot of speculation. Now you're going to see less. Developers are going to wait for the market to dictate."

Mr Larry Grossman, research manager at the Greater Tampa Chamber of Commerce, agrees: "They (developers) have learned a lesson—you cannot build one 200,000 sq ft building across the street from another." Developers are now being "cautious and selective." Everybody's "looking for a window in the market," he says.

This new caution is being componded by the US tax reform legislation, which became law last month. It limits to two the number of residential properties on which mortgage interest relief can be claimed. The new code also extends sharply the depreciation life over which losses on commercial property can be written off and clamps down on passive losses on syndicated property.

The effects are already being felt. "We are starting to see a lot more people looking to sell their properties," Mr Tangalakis says. "Part of the reason is to take advantage of capital gains provisions that will not be available next year."

The impact is being felt in the condominium market, already a victim of the sell-out by Latin American investors following the region's debt problems. One real estate agent reported that condominiums were selling at less than their early 1980s price as a result of the number of investors seeking to liquidate their assets.

The effects are being heightened by the surge in apartment building just before the tax reform Bill.

"About 80 per cent of all new multi-family building was for tax reasons, not need," says Mr Brian Smith, public relations director of the Northeast Florida Builders Association in Jacksonville. "People saw the tax bill coming but did not anticipate the clampdown on investment."

With real estate no longer being the favoured shelter it once was, some analysts are predicting a shakeout in the office and commercial sector similar to that which hit Florida's market in the mid-1970s.

"We are in the process of a major price readjustment downwards," says Mr Henry Fishkind of MG Lewis Econometrics in Winter Park. "A lot of projects with high leverage are going to go bankrupt and some financial institutions could sink under the weight."

But Mr Tangalakis believes that Florida's population and economic growth rate will shield the market. "There's been a lot of speculation, but a lot of it is being absorbed. I definitely do not see any gloom in the forecast," he says.

The one bright spot in the property market is the single-family home sector. Declining interest rates have made it easier for families to afford detatched houses, according to Mr Smith.

Tourism

Plans for more hotel rooms

IF FLORIDA owes its living as a tourist centre to anyone other than the Creator, it must be to two turn-of-the-century railroad barons and the creator of a veteran cartoon mouse.

It was Henry Flagler and Henry Plant, the two hotel and railroad magnates, who were responsible for opening the state's first luxury hotels, Flagler at St Augustine on Florida's east coast in 1885 and Plant at Tampa Bay on the Gulf coast in 1891.

Flagler eventually pushed his railroad all the way south to Key West in 1912, pausing on the way at Palm Beach to open the historic Breakers Hotel and at Miami.

But while these two pioneers paved the way for the land boom of the 1920s that began the development of modern Florida, it was Walt Disney and a cast of cartoon thousands, who has prevented Florida becoming just another place in the sun.

About 30m tourists come to Florida each year, according to Rene Welti, assistant director of tourism at the Florida Department of Commerce. They spend about $20bn a year.

All but 4m are domestic, mostly from the north-eastern US. About 50 per cent of the foreign visitors are Canadians, with roughly 1m Europeans and 1m Latins, Mr Welti said.

Almost half of the total will visit Disney World, a 28,000-acre site 20 miles south-west of Orlando. The theme park is one of the top tourist attractions in the world, receiving some 20m visitors a year.

Disney World has 17,000 permanent employees. In addition to the original theme park it now boasts the Epcot exhibition and conference centre, nine resort hotels with 5,500 rooms, 1,190 camp sites, 585 villas, convention facilities and a shopping centre.

Current expansion plans call for the establishment by 1988 of the Disney/MGM working television and film studio; a new 900-room hotel and Pleasure Island, a night-time entertainment complex featuring six "theme" nightclubs.

In the 15 years since Disney World opened, it claims to have attracted 116m visitors to the Orlando area, spending an estimated $33bn.

Its presence encouraged the opening of new tourist sites like the Sea World complex and the expansion of existing facilities such as Gatorland and the Cypress Gardens.

More importantly, it has sparked an explosion in hotel construction in the Orlando area. From 5,920 rooms in mostly small hotels and motels in 1970, Orlando now has 55,000 rooms, many in luxury convention centres, and stands third behind New York and Los Angeles in the number of rooms in a single metropolitan area.

Plans are under way to provide a further 28,000 hotel rooms. The pulling power of Disney World encouraged Orlando to launch a major drive to capture a share of the lucrative convention market. Last year, 665,990 delegates attended 1,776 conventions and spent an estimated $315m.

Passenger traffic at the $30m international airport is running at 10m a year, with 24 domestic and four international airlines flying regular schedules.

Since 1971, Metropolitan Orlando's population has almost doubled to about 900,000, employment has risen from 196,000 in 1970 to 531,900 this year.

Orlando's success in attracting convention visitors has spurred Miami into a similar drive. The city, Florida's second biggest tourist area, has seen its $4.5bn share of the market threatened by its reputation for drugs and crime, but is now working hard to clean up its image.

Greater Miami draws about 6m tourists a year. Its port claims to be the cruise capital of the world. More than 2.3m passengers sailed from the port last year and Mr Wade Battles, general manager of marketing, says that in the first 11 months of the 1985-86 fiscal year, passenger traffic was up by 9.1 per cent.

The port is home base for 20 vessels operated by eight cruise lines offering a variety of one to 14-day packages mostly in the Caribbean. To meet plans by the cruise lines for six new vessels with a total of 15,000 berths, the port plans three new cruise terminals and is gearing up to handle 4m cruise passengers a year by the end of the century.

Catamaran sailing off Florida's north-west coast

Miami hopes to encourage more of these passengers to stop over longer in the city. Most now fly in on the night before departure and leave the day after the cruise ship docks. A $93m Bayside complex is being built in the downtown area close to the port by the Rouse company, which developed the South Street Seaport in New York.

The project will house 180 shops, restaurants and pavilions and is designed to give an anticipated 15m visitors a year some flavour of Miami's ethnic diversity.

Tampa on the West coast is also hoping to attract more visitors. About 3m a year come to enjoy the white sands of the Pinellas suncoast and spend upwards of $1.6bn. Pinellas county has 20,000 hotel and motel rooms and Hillsborough 12,000. Local officials hope to attract tourists who will stay in the area and take advantage of its beaches, while visiting Disney World, only about an hour and a half along the freeway.

Mr Welti says that all Florida's traditional tourist *regions appear to be experi*encing growth this year. "We are up about 9.8 per cent across the board, in the first six months," he said.

On the Gulf coast the Fort Myers area is looking particularly promising with new hotels coming on stream and an improved air service. At the other end of the state in the so-called Panhandle, the "Redneck Riviera" which has traditionally drawn visitors from neighbouring southern states is also showing "significant growth," Mr Welti said.

New hotels have opened, including one owned by Marriott in Panama City.

The combination of a weak dollar and persistent fears *among Americans of terrorism* abroad have meant a lot more Americans are spending their vacations in the US. But the decline of traditional industries is forcing other states to fall back on their natural resources and encourage tourists, leading to hotter competition, Mr Welti says.

Force behind city's international role

**Profile:
Xavier Suarez,
Mayor of Miami**

Xavier Suarez: end of the rainbow

TO WANT to become mayor of a city with as unenviable a recent reputation as that of Miami might seem more than a shade masochistic. But Mr Xavier Suarez, the 37-year-old Cuban American who celebrates his first year in office this week, clearly loves his job.

"This is the end of the rainbow for me," he says, without a trace of irony.

Mr Suarez eagerly leads visitors out on to the waterfront terrace of his City Hall Office in the fashionable Coconut Grove suburb, to show off the view.

Ahead, across the deep blue expanse of Biscayne Bay, lies the downtown business district, dominated by a clutch of gleaming skyscrapers; to the left a flotilla of pleasure craft bobs in the palm-fringed marinas; to the right stretches the lush, green "island paradise" of Key Biscayne.

"This is one of the most beautiful cities in the world," the Harvard-educated lawyer beams. "There's no urban setting in the world that has this kind of pristine atmosphere."

The view is certainly beautiful, but "pristine" is probably the last adjective that most would associate with a city that for years simmered with racial tension and where "cocaine cowboys" fought running gunbattles in the streets.

But now a noticeable change is under way. Miami is working hard on a city clean up.

A tough police clampdown on street sales of drugs and on soliciting has brought a reduction in rates of most serious crime with the exception of murder. Most serious crime remains drug-related however.

"We still have a bit of an image problem," the mayor concedes. "But we have maybe learned to sell ourselves better." Visitors to his city now tell him how attractive Miami is, he says. "That was not so a few months ago." Drugs and crime are not now the first subjects to be raised.

He does not claim credit for the improvement, which he insists had begun during the final months in office of his predecessor, the charismatic Puerto Rican Mr Maurice Ferre, but it has certainly become more noticeable during his year in office.

Mr Suarez, whose family emigrated to the US in 1961, does, however, claim credit for bringing the city's Hispanic, black and "Anglo" communities closer together.

His election as the first Cuban-born mayor of the city at the heart of a county in which half the 2m population is Hispanic, has helped accelerate the gradual absorption of the predominant Cuban community into the political mainstream.

For years the Cubans, most of whom were well-to-do refugees from the Castro regime, regarded their stay in Miami as temporary, pending a swift overthrow of communism in Cuba.

Even after the failed US-backed Bay of Pigs invasion of 1961, the vast majority of Cubans continued to live a dual life — "immigrant" by day in well-paid middle-class jobs and "exile" by night, teaching their American-born children Spanish and investing large amounts of time and money in fruitless plots to overthrow Castro.

Despite their self-imposed political isolation, the Cubans' economic influence spread rapidly, transforming Miami into a Latin city and a natural magnet for trade and investment with Latin America.

As a new generation of Cuban-Americans came of age, they sought to match their economic influence with a greater degree of control over the government of the city.

Non-Hispanic whites, at first resentful of the emerging Latin dominance (voters passed a law in 1980 forbidding the use of any language other than English in official business) gradually realised that the Hispanics were there to stay and quickly moved to take full advantage of Miami as a bilingual business and financial centre.

Mr Suarez, who had to relearn Spanish when he moved to Miami from Washington in 1975, was at first sceptical of the city's pretensions to an international role. But this stance — which earned him stiff opposition from the business community in the mayoral elections—changed immediately he took office.

Contact with Caribbean and Latin American leaders and with officials at the 42 consulates located in Miami has convinced him that the city is not just "the gateway to America" or even "the capital of Latin America," but a "crossroads for Europe, Asia and Africa" to meet the Americas.

Despite constantly pressing this international role for the city, Mr Suarez regards himself as a "nuts and bolts man, not a visionary" and a "people's mayor" who spends much of his time on the streets "putting Miami on an even keel, getting people to get along with everyone else, making them believe in Miami."

"Miami is a young city. We have a lot of people trying to work themselves into positions of power and of influence," Mr Suarez says. "I think it is a great opportunity to use that dynamism, whether it be the Chamber of Commerce, the Cuban-American national Foundation or some of the young black entrepreneurs . . ."

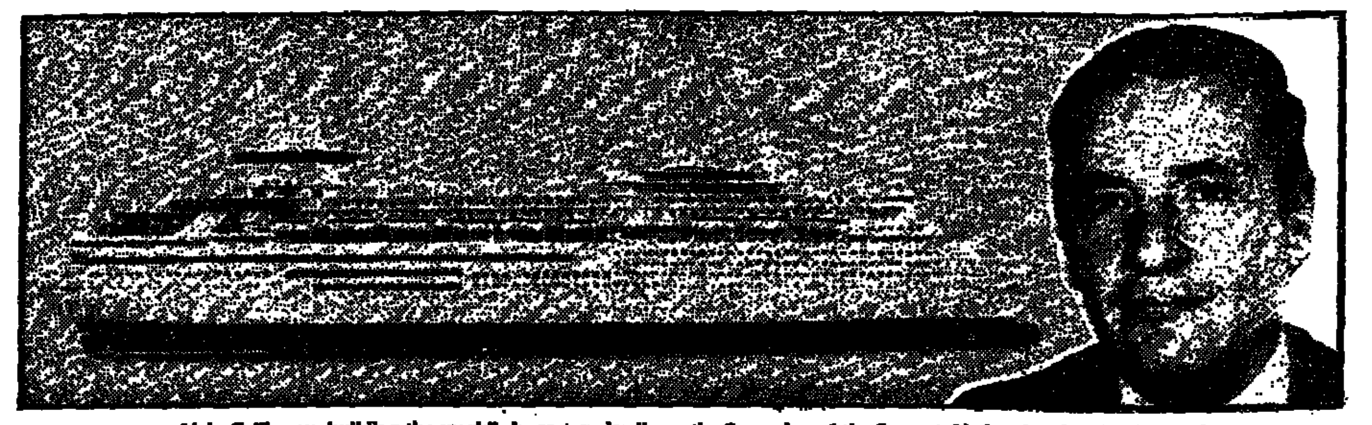
While he has reached an uneasy working relationship with the business community, Mr Suarez faces a far tougher task in seeking to bring poorer Hispanics and blacks into the economic mainstream.

Youth unemployment among blacks is running at 40-50 per cent, and while this is certainly not untypical of large American cities, the resentment and alienation of Miami's blacks, forced to watch the rapid advance of the Cubans and Anglos creating such visible wealth around them, still lingers just beneath the surface.

The memory of the last time that resentment exploded, in rioting in 1980, is too close for comfort.

Miami is a young city that reflects Florida as a whole in its struggle to retain control on its growth, that is American in its business and technology, but Latin in much of its ambience and culture.

Holding the lid on what Mr Ferre once described as a "human volcano" while at the same time ensuring Miami's continued growth as an international business and financial centre presents Mr Suarez with a tough agenda for the future.



Alain Grill: now building the world's largest cruise liner, the Sovereign of the Seas, at Alsthom's Saint Nazaire yards

Why Alsthom sees a future in haute couture shipbuilding

Paul Betts explains the French group's specialist strategy in a shrinking market

ALAIN GRILL cuts a curious figure as a high fashion designer. As head of the shipbuilding division of Alsthom, the heavy engineering group controlled by France's nationalised Compagnie Generale d'Electricite (CGE), he has far more of the world-weary bearings of a man used to working in a tough and troubled industrial environment. But he nonetheless likes to compare himself to haute couture. "What I'm trying to do is to become the grand couturier of the luxury cruise ship business. I want to be able to sell them for a little more than if they came off the shelf."

Since taking over at the helm of Alsthom's shipbuilding division four years ago, Grill has sought to specialise the group's Chantiers de l'Atlantique yards at Saint Nazaire, Brittany, in the construction of large luxury cruise liners. The strategy has so far paid off, at least in terms of saving Alsthom's shipbuilding activities from financial collapse. Saint Nazaire is now building the world's largest cruise liner, the $175m "Sovereign of the Seas" for the Norwegian Royal Caribbean Cruise Lines, and recently won a $150m order for the construction of a luxury cruise ship from the Los Angeles-based Sitmar lines.

However, the French company has just been direly disappointed by Sitmar's decision not to go ahead with a second order for another similar $150m cruise liner. Sitmar had originally indicated it wanted two ships; it ordered one firmly and reserved confirmation for the second by the end of this year.

Today Saint Nazaire is the only viable major civil shipyard in France and is likely to become the last remaining important civil yard in the country, as distinct from the naval dockyards where all construction for the French navy is concentrated.

With the decision last summer of the French conservative government to stop supporting the private Normed shipbuilding group, Alsthom's rival has been forced to file for bankruptcy. Moreover, there seems little if any chance of survival for Normed's three troubled yards at Dunkirk in the north and La Seyne and La Ciotat on the Mediterranean.

Alsthom itself has not escaped the crisis. It has just announced plans to close its Dubigeon yards near Nantes and regroup its entire shipbuilding activities at Saint Nazaire 40 miles away. This, with the probable closures or reconversions of the Normed yards coupled with the Dubigeon shutdown, will leave Saint Nazaire as the only big civil yard.

"When I came to Alsthom four years ago I did not think, like the Japanese did in 1983, that there would be a quick recovery in the shipbuilding industry. I always believed it would long remain in crisis," says Grill, explaining that his priority was to look for "safety market niches" to ensure the survival and viability of Saint Nazaire. A former managing director of the Chargeurs Reunis shipping company with wide experience of the shipping business, Grill says that he wanted to find a sector in which Alsthom could be different from the competition and, more important, where the Japanese and Koreans were weak. "The cruise liner business is one of the rare areas in which the Japanese and Koreans have not yet taken a foothold."

With his previous experience of running, among other things, a cruise line, Grill became convinced that the cruise business, especially in the US market, had good development potential and that big cruise operators would seek to renew their fleets. Grill thus recruited new managers and specialists to develop Alsthom's cruise ship construction business to turn it into the leading European competitor in this sector.

Grill argues that the success so far of Alsthom's move into the luxury cruise ship construction business is only partly due to French government subsidies to support the domestic shipbuilding industry.

The French system of subsidies is now being reviewed by the government. Indeed, Grill says that the level of state aid — equivalent to about a quarter of the value of a new ship order—should, if anything, be kept up, if not increased, especially in view of the fact that the French franc, which stood at around FFr 9 to the dollar under the previous regime, has since appreciated to around FFr 6.50 to the dollar.

Grill adds that Alsthom's competitors all benefit from one form or other of state support. The French yards, for example, do not enjoy a steady level of navy orders like those in West Germany because all naval construction is done by France's military dockyards.

Moreover, in the specialised large cruise liner sector, the Japanese and Koreans, also succeed in undermining the market for European groups. Although they have yet to win an important order in this area, the Koreans and the Japanese inevitably enter the bidding for new cruise ship orders.

Detailed study of the US cruise market persuaded Grill and his team that cruise operators were increasingly moving towards new large luxury vessels to offer more competitive cabin prices and attract a broader range of customers who were able to pay $150 a day but not $300 a day. "We were also lucky. The collapse of the dollar boosted the US cruise business in the Caribbean and Alaska although it has clearly cut into our profit margins," Grill says.

Although Chantiers de l'Atlantique has a long and venerable history of building transatlantic liners—including the "France" and the "Normandie"—Grill explains that the new luxury cruise ships are a different concept. With a capacity for 2,600 passengers, the Sovereign of the Seas can host more passengers than the France, although the transatlantic liner is longer and wider. But the new generation cruise ships are taller with extensive outdoor facilities on the top decks. They are also slower but with far lower fuel consumption.

But the specialisation in cruise ships has also forced Grill to look for other more traditional activities to occupy the workforce of Saint Nazaire. Cruise ships inevitably require far more interior decorating and other design work than conventional vessels. "There is a limit to the multifunction nature of a yard. You can't transform all your welders into carpenters or electricians and I needed to find ships rich in steel work to keep my people busy between cruise liners," explains Grill.

He has thus launched a line of so-called "catalogue ships," offering a range of petroleum product tankers, built on design-to-cost techniques. In Grill's fashion trade jargon, the catalogue business is Alsthom's "off the shelf" or "prêt-à-porter" section of its activities.

Immediate prospects for the product tanker business are not altogether encouraging for Alsthom. Grill acknowledges that the Koreans are now winning all the orders. However, he believes there will eventually be opportunities for Alsthom in this sector with the growing need to renew obsolete tankers.

Grill is also adopting a patient approach to another area into which he has moved Alsthom's shipbuilding business. He has been pushing the Chantiers de l'Atlantique into the offshore business, including the construction of semi-submersible multipurpose rigs, jack-up rigs, derrick lay barges, floating production and storage vessels, floating liquified natural gas plants and other floating structures.

Though these efforts have not yet resulted in any big construction orders being won, Alsthom is working on a number of important research contracts in the offshore sector. The group expects offshore exploration and development to pick up eventually, offering, in the longer-term, opportunities for Saint Nazaire to develop and transfer its new offshore technologies.

Grill has also sought to diversify the yard's activities into other totally new areas. This brought Alsthom into the recent competition to build the fixed link across the Channel. The French group joined the Euroroute consortium whose road and rail scheme involving a combination of bridges and tunnels linked mid-channel by artificial islands was rejected in favour of the Channel Tunnel Group's rival proposal to build a twin-bore rail tunnel using special rail shuttles. "It was a flop," Grill admits candidly, but he still thinks it was a "historic error" to have chosen the twin-bore rail tunnel solution.

However, the Euroroute experience, though disappointing, had some positive spin-offs for Grill. "We learnt several things about metallic bridge construction and tunnels. We are now interested in this business and probably wouldn't have been if we had not done the preparatory work on Euroroute," he says.

Of all the new efforts undertaken by Grill to enable the Alsthom shipbuilding division to survive as a viable business, the main dividends so far have come from his move in the luxury cruise liner business coupled with strenuous cost cutting and rationalisation at Alsthom's yards.

Production costs have been cut back by about 30 per cent, and the workforce at Saint Nazaire by an equivalent percentage in the last two years to a current level of 4,500 people.

This has been achieved against a difficult background of labour relations in the French shipbuilding industry. "We were hit with three months of labour unrest at Dubigeon at Nantes because I decided to regroup the research and design centres 40 miles away at Saint Nazaire," says Grill.

Alsthom is now planning to shut down altogether the Dubigeon yards which it absorbed in 1983 as part of a reorganisation of the French shipbuilding industry by the former Socialist administration. Dubigeon, which specialised in the construction of military surface vessels and submarines for the export market, has continued to lose money.

During the past ten years, Dubigeon has seen its workforce decline from 2,700 people to 730 people today, and should be down to 590 by the end of the year. Alsthom now wants to regroup all its shipbuilding activities at Saint Nazaire.

But if Alsthom is likely to face some turbulent months ahead with its proposed regrouping of shipbuilding at Saint Nazaire, its success in winning major cruise ship orders has given a significant boost to the company's shipbuilding image.

"It's been one of my constant preoccupations to give our yards a good and distinctive image in a business which has a terrible image in France thanks to the problems of the Normed group," says Grill.

Hornby

IT WAS stated in last Wednesday's article on Hornby, the toy manufacturer, that a receiver was called in a little more than a year after the company had been bought out by its management from its former parent company, Dunbee Combex-Marx, which had gone into liquidation in 1980. It was also stated that, at the same time, the original buy-out backers arranged a £10m rescue package. Neither of these points is correct. Hornby did not go into receivership after the buy-out and, although it incurred a loss in the first year after the buy-out, it subsequently returned to profit and has remained profitable since then. Its backers have supported it all along, but have never been called upon to refinance Hornby. We apologise for these errors.

Management abstracts

Competitive advantage through organisational culture. J. B. Barney in The Academy of Management Review (US). July 1986 (10 pages)

Contends that a company's culture can be a source of sustainable competitive advantage if it is valuable, rare, and difficult to imitate (quoting IBM and Hewlett-Packard, among others, as examples). Examines relationships between organisational culture and financial performance, and sees the most successful performers possessing cultures that enable them to perform and behave in ways which add economic value. Argues that companies without such cultures cannot expect to generate superior performance by changing them to incorporate valuable attributes.

Infinite and finite capacity planning. D. Crabtree in BPICS Control (UK). June/July 1986 (2¼ pages)

Compares and contrasts infinite (no initial account is taken of plant capacity) with finite loading (where it is); shows that the requirement to plan capacity arises at various stages in the scheduling timescale; contends that it makes no sense to talk of finite or infinite loading because the loading technique is qualified by the stage of processing to which it is applied. Argues that a system employing finite loading at the master schedule and materials planning stages can never form a permanent basis for a valid manufacturing resource planning system.

Prospective reporting for small businesses. M. C. Stilwell in Journal of Accountancy (US), May 1986 (8 pages)

Summarises a guide for US accountants advising small businesses on financial forecasts; discusses the desirable characteristics of engagement and representation letters; covers procedures, presentation, and disclosures checklists, uses of software templates and sources of information—all to a view of this activity becoming a significant practice expansion area.

Receivers—double agents or surrogate liquidators? I. Benveniste in Accounting and Business Research (UK), Summer 1986 (5½ pages)

Argues that it might be beneficial to change the status of a percentage of debts due to unsecured creditors by making them preferential; considers that would improve a receiver's performance; suggests that if banks are given greater financial incentives to monitor the receiver's performance, strategies might be chosen that maximise asset realisation, and receivers with particular skills would eventually be appointed to the right situations.

Computer abuse and how to prevent it. L. Mercer in The Accountant's Magazine (Scotland), July 1986 and August 1986 (6½ pages)

Two linked articles: (1) examines various types of computer abuse and looks at what is required of computer security; (2) gives a structure for developing and implementing a security policy

Preserving entrepreneurship as companies grow. H. H. Stevenson and J. C. Jarrillo-Mossi in The Journal of Business Strategy (US), Summer 1986 (14 pages)

Reveals the danger of an entrepreneur's organisation becoming a bureaucracy which preserves the status quo for the entrepreneur and denies other management opportunities for creativity, and decision-making; considers factors that should be built into organisational life in order to perpetuate entrepreneurial success, e.g., making individuals responsible for broadly-defined objectives, making them believe they can succeed; presents six questions to be asked when making day-to-day decisions; claims they will help to preserve the entrepreneurial spirit.

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THE ARTS

Architecture/Colin Amery

Sane proposals for Spitalfields

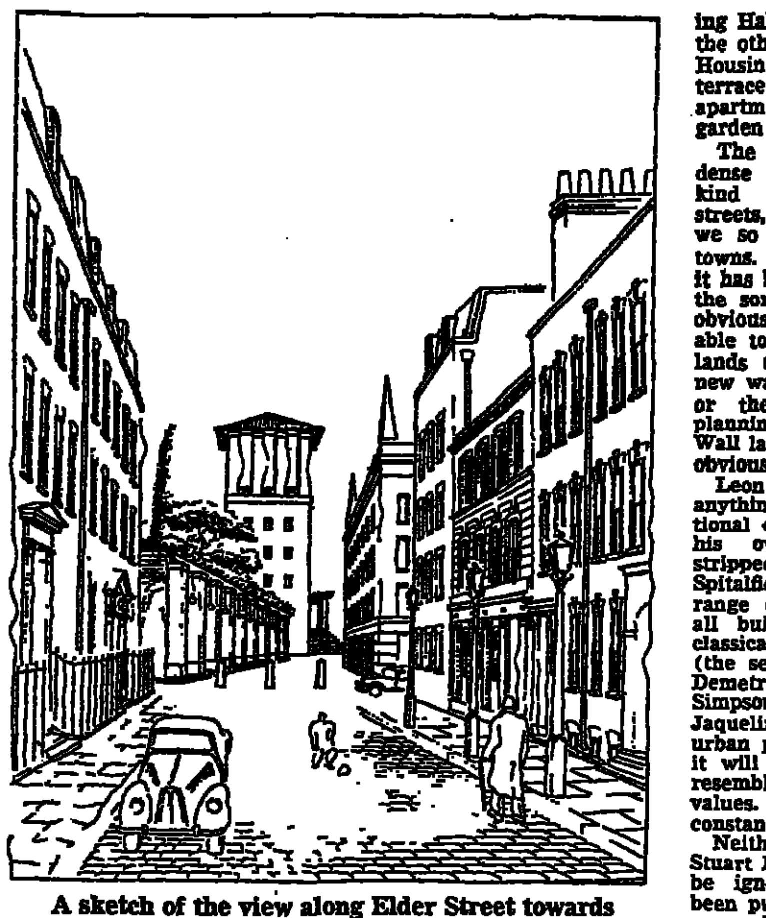
Property developers in the 1960s and 1970s were all thought to be in communion with the devil. They received blanket condemnation for the destruction of our cities, for the rape and pillage of historic areas and for the laying waste of far too many green fields. Much of the criticism was justified although it was never entirely fair to lay all the blame at the developers' feet.

Planners were (and are) far from perfect and architects seldom angels. In the 1980s there is a distinct feeling of redemption in the air. Developers, not all of them but some of the most important, have discovered good architecture and that it makes just as much money as bad. Indeed one developer, Mr Stuart Lipton, is making his reputation by encouraging good buildings that are also commercial.

One of his present preoccupations is the redevelopment of the site occupied by Spitalfields Market. With his partners in the development company Rosehaugh Stanhope plc, he has taken the imaginative step of commissioning a masterplan from the outspoken and provocative architect and teacher, Mr Leon Krier.

This bold step is clearly the right one. Spitalfields, on the Eastern boundary of the City of London, just about retains the bones of an older street pattern and it has not yet succumbed to the imposition of modern mega-structures beyond a few standard developers' office blocks on the fringes. There has been a large enough influx of middle class house owners to repair the surviving excellent early 18th century houses.

There is the amazing Christ Church by Hawksmoor currently undergoing a lengthy restoration. There are three conservation areas that have ensured a mixture of uses and activities in the whole district. The local authority, the London Borough of Tower Hamlets, has produced planning guidelines that indicate a range of uses. They have made it clear that Spitalfields is not to be seen as a natural place for the City of London to expand with acres of offices.



A sketch of the view along Elder Street towards the proposed Huguenot Museum

Leon Krier's proposals are ambitious. He calls the area of the market, Spitalfields West and sees it as, "an organic urban whole, forming a small "city within a city" integrating old and new in a harmonious composition rivalling Covent Garden and Mayfair." He proposes a distribution of uses that is 45 per cent offices and 55 per cent houses.

Instead of concentrating all the offices in one lump they are divided into seven blocks of different sizes, distributed throughout the project in a chequer board of alternative uses. What has so often ruined our cities has been the developers' tendency to gobble up lots of small lumps of the city and after chewing them for a bit spit them out as one indigestible lump—usually a concrete bolus of offices.

Leon Krier advocates the provision of significant public buildings, to be placed on squares and vistas and so enhance the townscape. A towered Huguenot Museum not only commemorates the immigrant founders of the area but gives point to several important axes. A large Assembly Hall, a domed Dealing Hall and a large hotel are the other major public edifices. Housing is provided either in terraces with gardens or apartments around large garden courtyards.

The actual street plan is a dense one and provides the kind of mixture of lanes, streets, squares and courtyards we so much admire in older towns. How curious it is that it has been so difficult to build the sort of towns that are so obviously attractive and agreeable to be in. Look at Docklands or the Barbican or the new wave of suburban sprawl, or the new monster given planning permission on London Wall last week—the lessons are obvious.

Leon Krier has yet to build anything. He believes in traditional construction. He prefers his own brand of calm, stripped-down classicism. For Spitalfields he proposes a range of architects who have all built in the conservative classical way; Robert Adam (the second), Abdel el Wakil, Demetri Porphyrios, John Simpson, Quinlan Terry and Jaquelin Robertson. If this urban paradigm is to be built it will be the one thing that resembles a return to the old values. These are, of course, constant values.

Neither Leon Krier nor Stuart Lipton are gentlemen to be ignored. Krier has just been put in charge of a major research institute with a $1m budget in the United States. Stuart Lipton is about to redevelop the Paternoster site to the north of St Paul's cathedral—a rare chance to remove the eyesores of the 1960s.

While Spitalfields could well become an important testing ground for a civilised urban renaissance, Mr Krier still needs some architectural flesh on his intellectual dry bones. But as a plan and an approach it arrives like a touch of clear sanity and rigorous common sense.

If the engagement of art and commerce can succeed anywhere it is here in London with these two partners. I, for one, am looking forward to the marriage.

The Infernal Machine/Lyric, Hammersmith

Martin Hoyle

Eric Bentley referred to the "awful vacuity" of the later works, but Jean Cocteau's revamping of the Oedipus myth is accounted among his finest. The author's passion for chic novelty prompted a mixed reception in Louis Jouvet's 1934 production with Jean-Pierre Aumont (later Jean Marais, who would find fame in such Cocteau films as *La Belle et la bête*), but a revival in the Fifties went smoothly—naturally enough in a decade of desperately flimsy artiness modishly recycled from stale resources (we had Christopher Fry and the Festival of Britain).

To retell a story that everyone knows requires something new in the way of slant or style. Cocteau gives us battlement ghost-watchers in a *Hamlet* pastiche followed by boulevard comedy and a dash of religious drama. Deliberately flip, the would-be *épatant* cocktail banter ("Personally I find your chickens' entrails ridiculous," draws Jocasta to soothsayer Tiresias) now sounds dated. One is tempted to ask so what? Without the cosy drollery of archaism we are left with an interminable recapitulation of an over-familiar story, that of the doomed hero who (to use the grammatically cavalier words that Simon Callow's translation gives him) "killed he I should not have killed and married she I should not have married."

The play's chief contribution to the legend is to diminish it. In this Mr Callow's production is abetted by Maggie Smith's Jocasta. As not infrequently, when faced with writing or directing unable to keep her in check, Miss Smith opts for a revue turn and the hell with it. Far from displaying "that international accent of royalties" (Cocteau), this Jocasta emerges as a camped-up Coward character, all baleful *oeillades*, aghast double-takes and vocal cadenzas whose lilt and droop can turn one syllable into an aria. In Act 2 she takes time off from royalty to play a funny peasant mum with comic cockney accent. The technique has remained the same from Shaffer's *Private Ear* and Zeffirelli's *Much Ado* onwards. One charitably assumes Miss Smith resorts to inappropriate clowning in moments of uncertainty, or possibly mutiny. At any rate, she tilts the play's balance precariously towards the over-arch.

Act Three, the most protracted and anti-climactic bridal-chamber scene since *Lohengrin*, finds Miss Smith suitably muted and withdrawn. Nevertheless, in the face of this supremely shallow performance interest centres less on the rest of the dwarfed cast than on Bruno Santini's striking set. An almost vertical staircase is cut through terraced marble, as if in some steep pyramid. If the long-robed Jocasta and hobbling Tiresias (Robert Eddison) survive the run without injury in their nightly scramble down the slope it will be a marvel, if only marginally a blessing.

Tinselled branches evoking a West End Christmas display turn the walls into a glittering hill for the Theban countryside. This prompts a directorial *jeu d'esprit* when the offstage Oedipus is sighted below stage-level climbing a hill, only to appear 30 feet up and precariously descending, thighs and shoulders swaying, like a principal boy advancing for the walk-down. Jocasta's bedroom is swathed in red draperies that, like the bed coverings, are tweaked mysteriously away in what is becoming our commonest theatrical cliché for an austerely-set climax.

Alastair Muir

Maggie Smith

Despite fractured vowel-sounds Lambert Wilson makes a promising Oedipus in his mixture of the tough and the romantic. Mr Eddison's transsexual priestly ancient is mellifluous and wry. Both the dog-headed Anubis and the schoolgirlish Sphinx are stilted, though her sudden green batwings (luminous blue membranes) add to the panto mood. Cocteau took part in the original. Here we have Neil Cunningham got up like the author in evening dress, competing with loudspeakers that pop up like periscopes, or looming sibillantly through the marble as an over-enunciating ghost. Jim Carter, doubling as Creon and a Sergeant, provides a welcome note of no-nonsense, down to earth authoritative playing. The translation mixes the odd Americanism ("cathouse") with the even odder Anglicism: though I expect sentries who call one another "my old darling" are well within the Cocteau tradition.

Macbeth/Royal Lyceum, Edinburgh

Michael Coveney

With the RSC about to launch the Jonathan Pryce Macbeth at Stratford-upon-Avon — it was brave of the Edinburgh Lyceum to unveil its own revival at the weekend. In the event, Jules Wright's production promises more than it delivers, but there is a splendid monumental burnished box setting by Colin MacNeil and a persistent spooky soundtrack by Ilona Sekacz full of cries, coos, wails, pipes and all manner of audible proof that the night was indeed rough when all the chimneys were blown down.

With its gusting leaves and swirling mists, the foulness and fairness were disputing it strongly, but the rain nearly stopped play altogether. In a disastrous miscalculation, one of those classy stage storms clatters to the floor obliterating the witches' incantation and the field reports of the Captain and Ross—brave Macbeth, Bellona's bridegroom must be taken on trust as man of achievement with the sword.

David Fielder is not the most vocally over-endowed of actors anyway, but he scores a notable double here, rendering first the Captain and then the Porter totally drenched and inaudible. The banquet scene is similarly waterlogged, in spite of some sculpted staging effects in which a chandelier, morose solitary symbol of good cheer, descends above a table where the vision of Banquo is as hallucinated as the elusive dagger. The upstage wall of seven towering entrances opens up, thrillingly, as Birnam Wood doth come to Dunisane.

It is indicative, though, of the production's somewhat cold (and damp) hieratic tendency that Jonathan Hyde delivers the "Tomorrow" soliloquy in half profile to the measured accompaniments of Miss Sekacz's synchronised rumblings. Hyde is an impressive, statuesque actor with a murderously low baritone who shuts out emotional susceptibilities the minute he's killed the grooms ("To know my deed 'Twere best not know myself") and swears himself in, right hand raised, to a callous carnage spree when shown, in a series of not very sorcerous reflecting mirrors, the Macduff lineage.

This is a chilling and grandiose reading, very well considered, but lacking a final knock-out punch. Barrie Rutter's fine and angry Macduff stabs his adversary to death gruesomely and savagely.

The lighting designer, Rick Fisher, has bathed the action in rasping spots that pinion the actors to the walls, helping Macbeth's horror rating no end but causing the much warmer personality of Julie Covington's Lady Macbeth a few problems. One feels Covington would like to scale the whole thing down, and she finally succeeds in the sleepwalking scene, plangently delivered by candlelight in a crouching position. Her voice is a pure and musical instrument but I was not convinced about her maternal history.

Outside of the principals and Macduff, not much thought has gone into the other characters, John Bett offering an indecipherably amiable Banquo, Christopher Bowen a sensibly righteous Malcolm, and Paul Boyle an Irish conflation of Ross and Lennox, spokesman for a troubled political landscape.

The Seagull/Palace, Watford

Martin Hoyle

There is a perceptible Irish undertow to Watford's Chekhov; understandable, since the director, Patrick Mason, has a distinguished record of theatre work in Dublin and some of his cast bring experience from the same background to the Palace Theatre. Surprisingly, the result is not the Celtic melancholy that, together with English good breeding, so often lies in wait for self-indulgent British Chekhov; but a lively, almost abrasive, energy in some of the characterisation.

This is immediately apparent with Ingrid Craigie's brisk Masha. She draws onstage curtains to reveal more curtains, a few sticks of furniture and dead leaves.

Joe Vanek's sparely suggestive sets (though the visible scene-changes are a trifle long) clear the decks for vigorous interplay among the residents and neighbours of the Sorin estate in Michael Frayn's translation. They emerge as curiously unlovable, but no less real—and observed with no less detachment—for all that. The biggest jolt is provided by Irina Brook's Nina. Never has the stage-struck ingénue breezed into the assembly with such self-confidence. Poor Konstantin has rushed off mortified, but you suspect she's glad to see the back of him and get on with the business of making important contacts.

Lorcan Cranitch looks slightly mature for Konya's 25 years but is correspondingly robust and positive. His lunge at the kindly doctor ends with a bear hug, but might equally have heralded a punch on the nose. The successful writer and celebrity emerges as his mirror image in more ways than one. Trigorin counters the boy's certainties with scepticism, the youngster's faith in himself with a rueful acknowledgement of inferior achievement. Paul Shelley avoids the extremes of other Trigorins—excessive weakness, false modesty, duplicity—and takes the character's self-deprecation at face value. He emerges as one of those gifted second-raters whose tragedy lies in their self-awareness.

It is not Prunella Scales's fault that the shade of Sybil Fawlty hovers over her. It is her fault, however, that she fails to dispel it entirely. The most theatrical thing about this Arkadina is her reconquest of Trigorin, on her knees, on the ground, rolling with him in the leaves. Not one of nature's sexpots (the generally underrated Samantha Eggar succeeded with the full-frontal sexual attack in last year's Hammersmith production), Miss Scales make her triumphant "He's mine!" sound like the brisk conclusion of an argument over the price of eggs.

Tim Preece makes an almost Dickensian mark as the schoolmaster; Antony Brown's affable old Sorin is a plus; Denys Hawthorne's dapper doctor explains Polina's hopeless love while remaining a little too soft for these not very gentle gentlefolk.

BBC Symphony/Festival Hall

David Murray

The best part of Friday's BBC concert was Mahler's *Das klagende Lied*, and that was first-rate. Early piece though it is, every bar is *echt*-Mahler, and the form in which the grim folk-tale is told is heroically *faux-naïf*, original and resonant. Since a flurry of revivals around the time when its suppressed first part, "Waldmärchen," was rediscovered, *Das klagende Lied* has been neglected in favour of the mature symphonies—which is understandable: and yet it has all the virtues of the *Fahrenden Gesellen* songs except concision, and one misses it. It was a double pleasure to have Lothar Zagrosek not merely reviving it, but conducting a performance of such incisive character and fresh detail.

Zagrosek judged to a nicety the degree to which the robust tunes and ominous shudders of *Klagende Lied* can (and should, with hindsight) be edged toward parody, without losing the serious feeling behind them. The BBC Symphony delivered the score with quite unusual flair and snap, and the offstage bursts of raucous wedding skirling were spot-on, no less than the mournful solo winds in the foreground. A sterling team of principal singers comprised not only *Linda Finnie*, whose opulent Wagnerian mezzo was ideal for the main narrative, but Phyllis Bryn-Julson and Siegfried Jerusalem in the lesser parts and six Westminster Cathedral boys to speak for the murdered brother. The Chorus (trained by Gareth Morrell) outdid themselves: instantly responsive at entries, impeccably pitched, vital and exciting.

Miss Bryn-Julson addressed herself to the large soprano role in York Höller's *Dreamplay* (1983) with equal loyalty, but even with the composer himself on hand to manipulate the electronics—live processing as well as taped components—it made a diffuse, unpersuasive whole. Inspired by Strindberg's theatrical fantasy, three of its five movements set bleeding chunks of text (we heard it in English), the first an embarrassing spoken dialogue over conventional "evocative" sounds. There was more of moderate musical interest in the rest, with some passages of cultivated neo-romantic imagination, chiefly in Höller's Mahlerian (and riskily-titled) "Meditation and Ostinato on the Return of Eternal Monotony"; but a piece nearly a half-hour long needs a much higher musico-dramatic profile.

The concert began with Webern's Six Pieces op. 6 in the first version for huge orchestra. Zagrosek treated them scrupulously, but they would have been better later: neither audience nor orchestra was quite ready for the acute, committed listening they require.

Kitezh/Radio 3

Ronald Crichton

Rimsky-Korsakov's *Kitezh*, last but one of his many operas, was broadcast on Saturday from the BBC Manchester Studios as part of the Russian season. Edward Downes, an experienced hand at Russian opera, conducted the BBC Northern Singers and Philharmonic Orchestra. Chris de Souza and Clive Bennett were the producers. Those who want more of Rimsky-Korsakov's operas must be grateful for the chance of hearing a work much admired but more often met in concert hall than opera house. Largely but perhaps not only because of the decision to sing in Russian, gratitude must be tempered with some disenchantment.

The full title, *The Legend of the Invisible City of Kitezh and the Maiden Fevroniya*, gives some idea of the content. Fevroniya, who loves all living things and finds god everywhere, is discovered by Prince Vsevolod, son of the ruler of the great and beautiful city of Kitezh, while he is hunting in the forest. Although she is presumably anti-bloodsports she agrees to marry him. The wedding in a nearby village is broken up by invading Tartars and Fevroniya captured. The drunken Grishka Kuterma leads the Tartars to the city. Meanwhile Fevroniya has prayed for a miracle. A golden mist descends on the spires and towers. The invaders flee in terror. Vsevolod, killed in battle, reappears as a phantom. The lovers are united, to choral rejoicings, in a state of eternal bliss.

Some of *Kitezh* is extremely rewarding—the opening scenes in the forest with their stream of endless melody, indeed all Fevroniya's music and especially the sustained rapture of the closing scenes, where Korsakov bypasses the approaching shadow of Stravinsky and jumps ahead to a minimalist world where tiny shifts of harmony or colour make a difference. Given in Russian and explained only by a brief commentary the genre and battle episodes, on the other hand, sound tediously limp. And here Downes, sure of touch as ever in the best pages, appeared to have a smaller store of vitality to draw on than usual.

Kathryn Harries sang the long role of Fevroniya with complete absorption and an impressive supply of liquid, varied tone-colour. Howard Haskin as her prince was suitably knightly and heroic. As the drunken rogue Grishka, Anthony Roden worked heart and soul to show why the saintly Fevroniya twice interceded for the creature but, for non-Russian speakers, the language barrier was too great. The chorus was lusty. A large and notable supporting cast of British singers brought almost everything to their various roles except the vital Russian larger-than-life quality.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

November 7-13

Music

SPAIN

Madrid, Lieder concert with soprano Carmen Bustamante accompanied by Perfecto García Chornet. Circulo de Bellas Artes, Marques de Casa Riera 2 (Mon).

Madrid, Teatro Real, Paseo Isabel II: Sonatas by Beethoven with Daniel Barenboim. (Nov. 8, 12, 25, and 28); Tue (Nov. 5, 11, 19, 20, and 23). Orquesta y Coro Sinfonico of RTVE conducted by Edmon Colomer. Guridi, Liszt and Beethoven (Thur).

Asturias, Orquesta Sinfonica de Asturias conducted by Richard Zimmer. Stravinsky, Turina, Dvořák. (Wed). Gisela Paravini at Teatro Jovellanos, Paseo de Begona (21 02 01).

VIENNA

Ensemble Modern der Jungen Deutschen Philharmonie conducted by Heinz Holliger with Aurele Nicolet, flute; Thomas Fischer, doublebass. Holliger, Huber, Wyttenbach. Konzerthaus. Mozart Saal Mon (72 12 11).

Grigori Sokolov, piano. Beethoven, Schumann, Stravinsky. Musikverein (Tue).

Ensemble Contrechamps. Schoenberg, Richard, Gaudibert, Jarrell. Konzerthaus Schubert Saal (Tue).

Vienna Bachsolisten conducted by Ernst Wedam with Alexander Kriss, violin; Klaus Lienbacher, oboe. Telemann, Bach, Handel. Musikverein Brahms Saal (Wed).

Broadcasting Symphony Orchestra of Czechoslovakia conducted by Ondrej Lenard. Smetana, Tchaikovsky. Volksoper (51 444/2657). (Wed).

ORF (State Broadcasting) Symphony Orchestra and Vienna Boys Choir conducted by Lothar Zagrosek with Agnes Habereder, soprano; Margarita Hintermeier, alto; Robert Gambill, tenor; Dietrich Fischer-Dieskau, baritone. Reger, Rihm, Hartmann. Konzerthaus. (Thur).

NETHERLANDS

Amsterdam, Concertgebouw Philharmonic Chamber Orchestra under Hubert Soudant, with Nelson Freire, piano: Mozart, Britten, Rossini (Tue). Simon Rattle conducting the Concertgebouw Orchestra: Mahler/Cooke (Wed, Thur). (71 83 45).

Utrecht, Vredenburg. The Netherlands Philharmonic conducted by Hubert Soudant, with Jean-Jacques Kantorov, violin: Rossini, Martin, Schubert, Britten (Wed). Recital Hall: Travelling Music Ensemble led by Christian Bor: Schubert, Klinghardt, Brahms (Wed). Mahler Lieder sung by Jard van Nes, mezzo, accompanied by Gérard van Blerk (Thur). (31 45 44).

Groningen, Oosterpoort. Orchestra of the 18th century under Frans Brüggen. Mozart, Schubert (Tue). (13 10 44).

Rotterdam, De Doelen. The Netherlands Philharmonic Chamber Ensemble under Hubert Soudant, with Nelson Freire, piano: Mozart, Britten, Rossini (Mon). Hartmut Haenchen conducting the Rotterdam Philharmonic, with Peter Rösel, piano: Brahms, Bartok (Thur). Recital Hall: Travelling Music Ensemble led by Christian Bor: Schubert, Klinghardt, Brahms (Thur). (414 29 11).

Eindhoven, Globe Theatre. Travelling Music Ensemble led by Christian Bor: Schubert, Klinghardt, Brahms (Tue). (11 11 22).

Maastricht, Schouwburg. Modern Lieder and chansons sung by Gisela May (Wed). (21 33 00).

LONDON

Segovia: Royal Festival Hall (Mon). (928 3191).

Royal Philharmonic Orchestra conducted by Yuri Temirkanov with Miriam Fried, violin, Prokofiev, Bruch and Sibelius (Thur). Royal Festival Hall.

Nash Ensemble conducted by Lionel Friend with Philippe Davies, flute and Penelope Walmsley-Clarke, soprano. Stravinsky, Prokofiev, Tchaikovsky and others. Queen Elizabeth Hall (Mon). (928 3191).

Philharmonia Orchestra conducted by Carlo Maria Giulini with Philharmonia Chorus and soloists. Verdi Requiem. Royal Festival Hall (Tue).

Leipzig Gewandhaus Orchestra conducted by Kurt Masur Weber, Mendelssohn and Schubert. Royal Festival Hall (Wed).

Royal Philharmonic Orchestra conducted by Per Dreier with Tedd Joselson, piano. Rossini, Handel and Rachmaninov. Barbican Hall (Wed). (638 8891).

London Symphony Orchestra conducted by Michael Tilson-Thomas with soloists and Pro Musica Chorus. Stravinsky and Beethoven. Barbican Hall (Thur).

PARIS

Orchestre de Paris conducted by Christoph von Dohnanyi, Philippe Bianconi, piano. Orchestre de Paris Choir conducted by Arthur Oldham: Haydn, Schumann, Ives (Wed, Thur). Salle Pleyel (4561 0630).

Nouvel Orchestre Philharmonique conducted by M. Janowski, Siegmund Nimsgern, baritone, Martin, Bruckner (Thur). Radio France, Grand Auditorium (4230 1516).

Gaetane Prouvost, violin, Noel Lee, piano: Brahms, Martinu, Schubert, Smetana, Lee (Thur). Salle Gaveau (4563 2030).

WEST GERMANY

Frankfurt, Alte Oper: Ivo Pogorelich, piano. Scarlatti, Beethoven, Chopin, Scriabin (Mon).

ITALY

Milan: Reggio-Emilia: Teatro Municipale Valli: Maurizio Benini conducts the Bologna Comunale Symphony Orchestra in Haydn's Seven Last Words of Christ on the Cross (Mon). (40 346).

Rome: Chiesa di S. Sabina (Colle Aventino): Ludus Danielis – a 12th century liturgical drama by the New York Ensemble for early Music conducted by Frederick Renz and directed by Paul Hildebrand Jr. (Wed and Thur). (360 1752).

Rome: Auditorium in Via della Conciliazione: Giuseppe Sinopoli conducting, violinist Itzhak Perlman. Brahms and Strauss (Mon and Tue). (65 41 044).

Rome: Oratorio del Gonfalone (Via del Gonfalone 32/a): Muir String Quartet (University of Boston). Beethoven, Schubert and Haydn. (Thur). (65 75 952).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting, Eugene Levinson, double bass; Charles Rex, violin; Joseph Robinson, oboe. Haydn, Hindemith, Koussevitzky, Scriabin (Tue); Zubin Mehta conducting, Paul Neubauer, viola; Leonard Davis, viola; Roger Woodward, piano. Bach, Xenakis: Kegrops (world premiere). (Thur). Lincoln Center (874 2424).

The Waverly Consort (Alice Tully): The Road to Compostela, songs of medieval travellers and pilgrims (Thur). Lincoln Center (362 1911).

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting. Barber, Schubert, Rimsky-Korsakov (Tue); Mstislav Rostropovich conducting, violin, Oratorio Society of Washington directed by Robert Shafer. Haydn, Dvořák, Prokofiev (Thur). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestral Hall): Claudio Abbado conducting, Margaret Price soprano, Lucia Valentini-Terrani mezzo-soprano, Taro Ichihara tenor, Gwynne Howell bass, Chicago Symphony Chorus. All-Verdi programme (Thur). (435 8111).

TOKYO

Maurice André, trumpet. Telemann, Bach, Albeniz. Hitomi Memorial Hall, Showa Women's College, Sangenjaya (Mon). (237 5990).

Prazak String Quartet. Haydn, Smetana, Dvořák. Hall, Ommachi (Thur). (235 1661).

NHK Symphony Orchestra conducted by Václav Neumann. Smetana. NHK Hall (Thur). (465 1780).

Suntory Hall, St Louis Symphony Orchestra conducted by Leonard Slatkin. Mozart, Mahler. (Mon). Mitsuko Uchida with English Chamber Orchestra in cycle of Mozart piano concertos (Tue); English Chamber Orchestra conducted by Andrew Litton with Nobuko Yamazaki, cello. David Matthews, Haydn, Mozart (Wed); Premieres of commissioned contemporary music. Tokyo Metropolitan Symphony Orchestra conducted by Hiroyuki Iwaki. Isang Yun, Keith Gifford, Hans Zender, Lutoslawski (Thur). (505 1010).

Tsuyoshi Matsuura, piano. Mozart, Beethoven, Brahms, Chabrier. Tokyo Bunka Kaikan. (Mon). (571 1688).

Yuriko Moriyama, piano. Schumann, Debussy. Ino Hall, Hibiya. (Mon). (571 1688).

Court ballets live on

A private library in West Germany is providing a dramatic exhibition at the Wheelock Whitney gallery at 123 East 62nd Street in New York (until November 22). The cache comprises 188 unrecorded costume designs for 20 court ballets performed during the reign of Louis XIII between 1614-34—the French equivalent to Inigo Jones's designs for the Stuart masques. Not even the national collections in Paris and Stockholm can claim as many original designs of the period.

Unlike Inigo Jones's largely monochromatic designs these pen and ink drawings are often dazzling: delicately coloured and liberally highlighted with silver and gold. Rather than records of solemn occasions, like those relating to the Stuart and Savoy courts, they are—uniquely—annotated working drawings, composed in the atelier of Daniel Rabel (1578-1637). They have an exuberance, ingenuity and wit that is as compelling today as over 350 years ago.

To the layman the designs are appealing and humorous; to the scholar they are historical documents. Annotated by up to four hands, the drawings detail colour, construction and fabric: watered silk and sateen, taffeta and spangles, silvered and painted gauze. They list, too, the masked courtiers, including the king and queen, who would dance the role.

More than any existing sources, these drawings suggest the spectacle provided by an early-17th-century court. They are now, rather incongruously, hanging inside an elegant New York brownstone, in an exhibition for probably the first and last time. The collection is organised by London dealers Hobhouse and Morton Morris. The exhibition also marks the publication of Margaret McGowan's study of the designs, The Court Ballet of Louis XIII (V&A Publications, £14.95).

Not all the drawings on show are as fully wrought or resplendent as the design for Jupiter's incarnadine confection, encrusted with gold and silver lightning and thunderbolts. Some are slight, and not attributed to a specific ballet. The earlier costumes derive from Roman tournament dress, with short skirts for dancing. There is Cachigue, king of the Africans—who enters the stage on an elephant—sporting tusk-like beards; a figure adorned by live birds; androgynous creatures; decrepit old men in walking frames, humped-backs and, typical of these later grotesques, a figure whose head, emerging from a fishing net, is topped by an open oyster, his hair is seaweed, his nose coral. Surprisingly, the King took this role.

Susan Moore

Conlon appointment

James Conlon has been appointed chief conductor of the Cologne Opera for four years as from September 1989.

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The trouble with luck

"EVERY GENERAL needs luck," Mr Nigel Lawson, the Chancellor of the Exchequer, said on television yesterday, echoing *Napoleon. And it can be* scarcely denied that Britain's Conservative Party has *had more than its fair share* of it in the past few weeks and months. A government that seemed *to be falling apart* over the Westland affair early this year has come back to the *point where it can contemplate* an early general election with a reasonable prospect of winning a third successive term. It cannot all have been the result of good management.

Part of the Conservative recovery has been due to the failings of the opposition parties. The Liberals *split* over defence at their conference in Eastbourne, thus impairing the chances of the Liberal-SDP Alliance. The Labour Party held together at Blackpool, but on the basis of a non-nuclear defence policy that is winning few converts. In the opinion polls that have followed, Labour has more or less held steady, suggesting that the Party may already have peaked, while support for the Alliance has declined. It is the Tories who have benefited. Their own defence policy has passed unchallenged.

Not least, the Government seems to do better when parliament is not sitting. There are *fewer banana skins* and less exposure to scrutiny.

Rushed election

As parliament begins its new session this week, however, the Government needs to ponder how much *has really changed.* The very fact that the opinion polls have turned round so fast should *itself be a warning not* to rely on them too much; they could change again another way and the trouble with luck is that it tends to run out.

What *may*—but still only *may*—have changed in the past *few months* is that the unemployment figures have finally reached a plateau. The Government's training schemes are beginning to have an effect. The long dispute with the teachers *is wearing itself out.* The decline of the pound against the Deutschmark has gone *sufficiently far* to make exports more competitive. Government revenues may be buoyant enough to justify the Autumn Statement, although there are risks in the strategy with inflation and the balance of payments.

Perhaps above all the Government, from the Prime Minister downwards, has realised that it cannot seek a third term on a manifesto as inadequate as the one it put forward in the rushed general election of 1983.

Two tasks

There is, after all, a distinction between winning and deserving to win, between *coming top of the third division* and winning the European Cup. In that context, there remains *rather* a lot of unfinished business.

It is still not absolutely certain, for instance, that the teachers' dispute has been settled and that the great education revolution is under way.

Chancellor Lawson said yesterday that the pound had fallen far enough, but appears to rely only on high interest rates and exhortation to *hold* it up. There are decisions to come about the future of the Rover Group and of nuclear power stations after the Sizewell report. The rate of unemployment, even if it has stabilised, remains unacceptably high.

There is also a residue of the poor and the disadvantaged too large for any government to contemplate with comfort. Not everyone has benefited from the consumer boom, and, even on the most favourable interpretation of the Government's record, other countries —West Germany, in particular —continue to do better.

In the next few months there should be two tasks. One is for the Government to show that it can govern competently —by good judgment as well as good luck—while parliament is sitting. The other is to draw up a manifesto for the 1990s that covers such fundamental questions as tax reform and the relief of poverty and drops the ad hoc, make-it-up-as-you-go-along approach that has characterised much of Mrs Thatcher's administration since 1983. The Prime Minister surely wants to do better than *to win by default.*

Southern Africa heads for crisis

SOUTHERN AFRICA is becoming a dangerously unsettled part of the world. The tensions created by the death of President Samora Machel, of Mozambique, the build-up of civil wars in Mozambique and Angola, the growing rift between Malawi and its neighbours and the prospect that Zambia and Zimbabwe may soon impose selected sanctions against South Africa despite their *vulnerability to retaliation,* are all in themselves cause for concern.

Together they form a picture *of a region moving steadily* towards a crisis from which none of the countries involved can emerge unscathed.

Although the civil war in Angola appears to be intensifying, with reports last week of further South African military involvement designed directly *or indirectly* to advance the Unita guerrilla movement, the level of tension in the region could well be raised several notches by events in and around Mozambique.

The documents alleged to have been recovered from the aircraft crash, in which Mr Machel died last month, are being presented to the outside world by South Africa as evidence that Mozambique and Zimbabwe were plotting the overthrow of President Hastings Banda of Malawi.

These have yet to be proved genuine but events of recent weeks independently suggest that Mozambique and Zimbabwe were convinced that Dr Banda was supporting rebels of the Mozambique National Resistance—or at least was allowing South Africa to channel assistance to the rebels through Malawi.

Only weeks before his death, Mr Machel had threatened to close the border with Mozambique, thus cutting off Malawi's shortest routes to the sea. He underlined his threat by ordering troop reinforcements to the border.

Vital pipeline

There is little or no evidence that Dr Banda *is* personally supporting the rebels but the upsurge in MNR activity, in the provinces of northern Mozambique *adjoining Malawi,* suggests that, at the very least, the border is inadequately policed. South Africa, which *has* close relations with Malawi, the one country in Africa with which it has diplomatic ties, may well be *taking advantage* of this.

Last week, Mr Chester Crocker, the US Assistant Secretary of State for African Affairs, said it was his impression that "a pattern of communication and support (between the MNR and South Africa) does continue." President Banda, pro-western and conservative, is now in his late eighties. The stresses and strains of being drawn into Mozambique's war could well jeopardise prospects of a peaceful succession in Malawi.

The rebels pose an equally serious challenge to another neighbour of Mozambique. One of their main targets is *the* so-called Beira corridor, through which runs Zimbabwe's road and railway links to the Mozambican port of Beira, as well as a vital oil pipeline which brings in the bulk of Zimbabwe's fuel. It is also the route through which other African states in the region hope to redirect their trade and so reduce dependence on South African ports.

Hence the pledge this month by Mr Robert Mugabe, the Zimbabwean Prime Minister, to defend the corridor, which is already protected by thousands of his troops, at all costs, and to the new Mozambican president, against the MNR. The rebel response was a declaration of war on Zimbabwe.

Fraught background

A grossly unequal test of strength between South Africa, the *regional* superpower, and Mozambique, enervated by war, economic decline and famine, *may be in the offing.* Will Mr Chissano, who made victory over the MNR the theme of his inauguration address, carry out his predessor's threats against Malawi? If he does, could South African stand by idly?

Against this fraught background and within the next few weeks, Mr Mugabe and President Kenneth Kaunda of Zambia are expected to implement the package of economic sanctions against South Africa agreed in August by all except Britain among Commonwealth leaders. This includes severance of air links.

The *black-ruled states in the* region are in a dilemma — their passion for change in South Africa matched by their *susceptibility to retaliation.* Never has their vulnerability to Pretoria's weapons of transport, trade and military muscle appeared so stark.

EUROPE'S QUEST FOR FOREIGN INVESTMENT

A war of diminishing returns

By Guy de Jonquieres, International Business Editor

A LOT has changed in Western Europe since Hitachi, the large Japanese electronics manufacturer, hastily abandoned plans in 1977 to build a colour television plant in Northern England in the face of outraged protests from local competitors and trades unions.

Today, the merest sniff of interest by a Japanese company in making such an investment is apt to trigger a stampede of national and regional development officials armed with polished marketing pitches and offers of assistance. For a really big project, there might even be the prospect of the ultimate accolade—a royal factory opening.

It is much the same story in France. After years of hostility towards multinational investments, particularly from Japan, it now claims proudly to have attracted more Japanese production plants than any other European country. To drive the *point home,* the French Government invited 30 top Japanese industrialists and bankers on a 12-day tour last summer to show off its open and welcoming attitude towards foreign businesses.

The changing image of Japanese companies — from menacing pariahs to honoured corporate citizens—is only one aspect of a much broader trend. Right across Europe, attracting inward investment is commanding an increasingly high priority among governments as a means of boosting jobs and exports and strengthening the technological base of industry.

"The competition to win internationally mobile projects is undoubtedly becoming much stiffer throughout the EEC," according to Mr Ian Robertson, director of Locate in Scotland, a UK government agency. "It began about three years ago and we have really noticed it during the past year."

In part, this reflects inadequate supply. Inward investment from the US, long the main source of projects, has tailed off sharply in the past 18 *months.* Though interest from Japan is said to be growing steadily, the value of its direct investments in Western Europe is still barely a third of those in the US, according to Japanese Government figures.

As a result, national inward investment agencies are under more pressure than ever to promote their wares abroad. As they step up their hard-sell campaigns, both financial incentives and selective trade protection are playing an increasingly significant role.

Government authorities insist that most plant location decisions are influenced primarily by factors such as the availability of skilled labour, good communications and the quality of life. But many also concede that, particularly when several broadly comparable sites are in the bidding, hard cash can tip the balance.

"Every month there is a project somewhere in Europe where the dispute turns on money," says Mr Chris Priston, head of the Invest In Britain Bureau, an arm of the Trade and Industry Department. "Only a minority of projects get into auctions, but they are usually the big ones."

The number of European governments prepared to shoulder an appreciable share of project costs through incentives such as regional development aid, training grants, tax breaks and research and development support has grown perceptibly in the past few years.

Until the mid-1970s, such inducements were largely the prerogative of poorer countries such as Ireland, which still offers some of the most generous financing around—up to 70 per cent of the costs of a greenfield investment. Today, they have spread even to Europe's most prosperous industrial heartland, including Austria, the Netherlands and several West German states.

But why use a carrot if a stick will do the job just as well? In France, some government officials argue that the recent influx of investment from Japan is a direct result of a willingness in the past to crack the whip ruthlessly over bilateral trade issues.

In particular, the notorious "Poitiers affair" in 1982, when France ordered all Japanese videorecorders (VCR) imports to be routed through a remote customs post, is cited as a milestone. "We were the ones to show our teeth," says Ms Marie Louise Bougeneaux, head of inward investment at Datar, the French regional development authority. "It really shook the Japanese."

There seems little doubt, either, that the EEC-wide curbs on VCR imports imposed in the early 1980s and special "infant industry" tariffs on compact disc players have been largely responsible for the growth of Japanese assembly plants in the Community in the past few years.

Many Japanese companies believe the EEC Commission is now pursuing a similar strategy in other product sectors. Its imposition of stiff anti-dumping penalties on imported copiers last summer and threatened actions over microwave ovens, electronic typewriters and printers are all viewed from Japan as part of a deliberate campaign to encourage increased investment in European manufacturing.

Officials in Brussels admit they would be far from displeased if that were the result. However, they are also worried that intense competition between governments to subsidise inward investments risks creating an absurd situation, in which Europe falls over itself to compensate the Japanese with one hand for the retribution which it has administered with the other.

Even when fears of protectionism are not an immediate consideration, there is little evidence that subsidies attract to Europe companies which would not otherwise have come here. "You decide to come into Europe irrespective of government grants," says Mr Wilf Corrigan, chairman of LSI Logic, a US microchip maker. "But where you locate in Europe is affected by grants."

LSI created something of a stir last year when it pulled out of talks on setting up a chip plant in Wales and decided to locate it in Lower Saxony in West Germany instead. Both regions offered roughly similar financial incentives for the initial phase of the project, Mr Corrigan says, but Wales lost out partly because it was unable to promise assistance for any future expansion.

The EEC Commission, which sets ceilings on government aids to investment, would dearly like to stop companies "*shopping around*" for inward investment subsidies. But this is hard to achieve, partly because under EEC law no distinction is made between local and foreign companies in the granting of national aids.

The Commission has been trying to tighten up the rules wherever it can. In particular, officials believe the size of many regional development areas is too large and the permissible ceilings on regional aids in the more prosperous parts of Europe are too high.

However, it is treading on sensitive ground. Even though fiscal authority is causing many countries to trim their regional aid budgets, governments are keen to preserve maximum discretion over how they spend the money: the West German states have been particularly adamant on this score.

Some national inward investment agencies claim that the system is already being strained to the limit. "Disciplines between European countries in offering financial incentives are deteriorating," says Mr Tom van Heesch, head of the Dutch foreign investment agency, who complains that some non-EEC governments have been aggressively bidding up the general level of subsidy.

Obviously, every government insists that it is playing by the rules. However, details of many individual deals remain confidential unless the Commission specifically demands information.

Recently, there has been an increasing trend in several countries to leverage state subsidies for inward investment by harnessing them with venture capital. In the Netherlands, MIP, a large venture capital institution, has worked closely with regional development agencies to attract foreign investment since it was set up by the government in 1982.

MIP, which is 57 per cent state-owned, has taken equity stakes in several smaller US high-technology companies — notably Sierra Semiconductors and Silicon Compilers—on condition that they set up operations in the Netherlands, where they have also been given government grants.

Earlier this year, the Scottish Development Agency teamed up with a group of private venture capital funds to finance the establishment of a £30m plant in Scotland by Damon Biotech, a small US biotechnology company. The complex deal is a generous one for Damon, which says its initial contribution amounts to only £3m in cash and $3.5m in guarantees.

Mixed financing arrangements of this kind obviously help to reduce the direct role of state funding. However, critics *argue that they may create distortions by encouraging private institutions to invest in projects which would not be viable without government support.*

Strictly speaking any government-sponsored inducements offered to inward investors in EEC countries must also be available to local companies. But in practice, however, fairly schemes are administered, they often tend to have an inbuilt bias in favour of newcomers.

Furthermore, according to David Cooksey, chairman of Advent, the lead venture capital fund in the Damon financing: "Governments are prepared to bend over backwards for a foreign company with a high profile. It's a lot easier for a company like LSI Logic to negotiate a good deal than for a firm already in the country."

Inevitably, established firms often complain bitterly that inward investment subsidies place them at a commercial disadvantage. Many also argue that they encourage the proliferation of foreign-owned "screwdriver" plants with low added value, particularly when they are set up in response to actual or threatened trade protection.

In general terms, though, conclusive evidence is hard to obtain. "We have tried to get information about the economic contribution of inward investment in every European country, in terms of output, value added and so on, but there are no reliable figures," according to Ms Bougeneaux of Datar. "In any case, everybody tells lies."

Nonetheless, demands from industry have been growing for stringent minimum EEC content rules to be applied to Japanese-owned plants. Ford, angered by the £350m government-subsidised car plant being built by Nissan in the UK, has called for an 80 per cent minimum, while Philips, the Dutch electronics group, wants a 45 per cent threshold for VCR and compact disc plants.

The EEC Commission, which would have to approve any such scheme, is divided. Though some officials are favourable, others argue that it would be difficult to formulate legally and cumbersome to enforce. Moreover, under the Rome Treaty, it would also have to apply to indigenous European manufacturers, some of which rely heavily on components imported from outside the EEC.

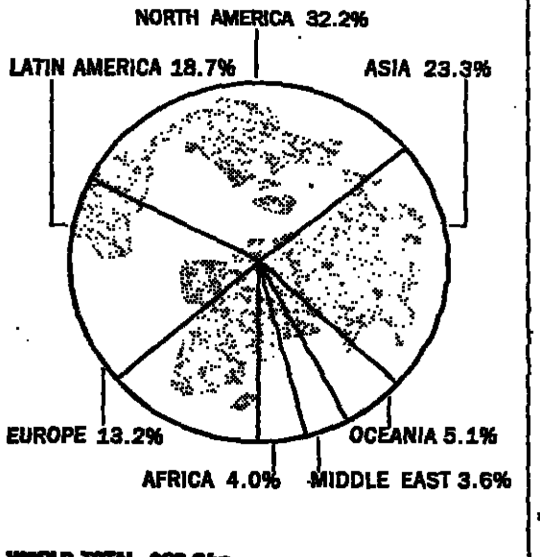
Prospects for any concerted action between EEC countries to stop competing in subsidies look equally cloudy. Commission officials have considered asking governments to agree to across-the-board reductions. But they fear that that would simply result in pressure to raise, not lower, the permissible limits.

A still more radical approach is urged by Mr Robb Wilmot, former chairman of ICL, the UK computer company, and the launch of European Silicon Structures (ES2), a pan-European microchip venture. He wants EEC governments to scrap all subsidies for US and Japanese firms and to spend the money on European industry instead.

While his proposal has been listened to sympathetically by some European policymakers and businessmen, few consider it realistic. "It is admirable, but wonderfully distant from practicality," says Mr Cooksey of Advent, which helped finance ES2. "The plain fact is that as soon as one country offers financial incentives, everyone has to do it."

JAPANESE DIRECT INVESTMENT OVERSEAS

THE WORLD



WORLD TOTAL, $83.6bn

IN EUROPE

$billion cumulative to 1985

	Investment by Japan	Investment by US
UK	3.14	33.96
NETHERLANDS	1.69	7.06
W. GERMANY	1.34	16.75
LUXEMBOURG	1.22	0.46
FRANCE	0.82	7.83
BELGIUM	0.74	5.10
SWITZERLAND	0.66	16.23
SPAIN	0.51	2.60
IRELAND	0.26	3.75
ITALY	0.18	5.64
	Year-end March '85	Year-end '85
All Europe Total	$11.0bn	106.8bn

SOURCE: JAPANESE MINISTRY OF FINANCE / US DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS

Goodyear plays US card

Robert Mercer, ager 62 chief executive of Goodyear, the embattled US tyre giant, is convinced that Sir James Goldsmith, the Anglo-French financier, is "obsessed" with taking over his company.

Mercer has begun recruiting some far-flung allies to help ensure that it does not happen.

On paper at least Goodyear appears to have retained two of the best financial advisers on Wall Street.

Marty Siegel, Drexel Burnham's takeover defence expert, has been hired to help Goldman Sachs, the company's traditional investment bank, defeat Goldsmith, who is being advised by Merrill Lynch.

The latter's main attraction is its willingness to put up a couple of billion dollars rather than any particularly impressive track record

Meanwhile, Goodyear's friends in its home state of Ohio, and in Washington, are rallying round with an intensity that might make a lesser corporate raider than Goldsmith have second thoughts about the wisdom of his move.

Senator John Glenn, the former astronaut, has called Goldsmith's takeover attempt "atrocious" and is asking the US securities and exchange commission to take, "a very, very careful look" at it.

Congressman John Seiberling, grandson of one of Goodyear's founders, is urging the passage of legislation to block the takeover because of Goodyear's importance

Milan Stone, president of the international united rubber workers union, says his union will do all it can "to stop this raid."

The famous Goodyear airship has been flown into action. It has been spotted patrolling the skies right above Goldsmith's mid-town Manhattan offices. Finally, the tyre giant has begun a $20m tv advertising blitz to win the hearts and minds of Americans.

The emotionally charged advertisements, which are meant to convey a feeling of warmth, comfort, safety, and security, carry a theme line, "Goodyear, take me home."

The first tv commercial was about a father and son looking *for a family dog on a wet night* in a car fitted with Goodyear tyres. It was screened in the *middle of a "sitcom"* programme called Gimme a Break.

Men and Matters

Pasta fashion

True *to* his reputation as a financial and industrial wizard, Carlo De Benedetti *has* pulled another surprise out of his conjurer's hat.

After Olivetti, office equipment, car components, pasta (Buitoni), financial services and publishaing, to *add* varied strings to his industrial and financial empire, De Benedetti *has just acquired a 25 per cent* stake in the high fashion house of Yves St Laurent.

Late last *month* De Benedetti was thwarted by Sir James Goldsmith in a bid to take control of Presses de la Cite, France's second-biggest publisher.

But the Italian has bounced back with a deal which is likely to pave the way for even bigger international links.

The house of Yves St Laurent, which has been held by the fashion designer and his partner Pierre Berge, since it was founded 25 years ago, appears keen to acquire control of Charles of the Ritz, the US cosmetics group owned by Squibb, which also owns the Yves St Laurent perfume line.

De Benedetti, through his newly formed French Cerus holding company, could now *provide* Yves St Laurent with the financial strength to gain control of a business valued at about $600m.

Pierre Berge, the chairman of the Yves St Laurent company, says he approached De Benedetti to offer him a *stake* in the fashion house—the intermediary was a friendly banker known *to both men in New* York. Moreover they had both clearly hit it off during early meetings.

Even before the *deal was* concluded De Benedetti established the headquarters of his French Cerus *holding on the* top floor of the Yves St Laurent building in the smart Avenue Georges V.

Bonsai bankers

Sanwa Bank, the *fifth largest* bank in Japan, has concluded that the best way to get *foreigners to work for it*—and to absorb the strong Japanese corporate culture—is to catch them young and train them.

The bank has just put the principle into practice by recruiting two young Oxford graduates, Simon Clow aged 22 and Charles Rixon, aged 23. *They are off to* Tokyo shortly for an intensive two-year training. After that they will be *dispatched to a posting outside* Japan to help build Sanwa's growing international business.

Although *several* Japanese companies already take in foreign graduates this is thought *to be the* first time that recruits have been whisked off to Tokyo to be thoroughly steeped in the language and business methods.

"We have done this for two reasons," says Yasuichi Asai, the deputy general manager of the bank's London branch. "We need native English speakers who can handle the business more quickly. At the same time we want our staff to know Japan very well. We hope they will learn about the behaviour of Japanese companies, and their mentality and their way of deciding things."

The two young men were recruited through an agency. Clow has just graduated in economics and *politics.* Rixon has been working at Credit Suisse First Boston after graduating in engineering and economics.

Clow admits that there are question-marks, particularly *over the Japanese willingness* to promote "gaijin" (foreigners) to high positions. "But I think Sanwa are being quite forward-looking about this." He has not made a lifetime commitment to his first employer as most Japanese do. The contract is for just two years. But he *expects,* through merit, to earn a management post in one of Sanwa's operations in *California,* New York, or London.

Dash for growth

And would *occidentals lose* one of their perceived advantages over orientals if the latter were as tall—or even taller?

The science of genetic engineering has reached a point where that is no longer an academic question. A state-owned Swedish company, KabiVitrum is hoping to persuade the Chinese to buy its human growth hormone. That is a biotechnology product said to make people grow taller.

Doctors at Union Hospital, Peking, are already testing the drug experimentally, says Dr Hans Flodh, a KabiVitrum executive just back from China.

The drug was developed by Genentech in California under a research contract which left the Swedish firm with the world market outside the *Americas.*

At present about 18,000 undersized children are being treated *with it* worldwide, almost all of them in the richer countries (including 900 in Britain) *for it is an expensive* and protracted treatment.

Number one rig

Oil rigs may not be in much demand these days, but the Glomar Arctic II, which has been auctioned by Phillips, London, fetched £15m, the highest price ever in a fine art auction room.

Its owner, the distressed US oil group, Global *Marine,* may console themselves that even though the rig cost about five times *as much* to build, it is still nearly twice as valuable as Mantegna's Adoration of the *Magi,* the previous auction record holder, sold by Christies last year for £8m.

Observer

[redacted]

Foreign Affairs

Summit still wrapped in cloud

By Ian Davidson

WHEN Mrs Thatcher visits Ronald Reagan this week in Washington, she will have a three-part script carefully prepared. First, she will commiserate over his setback in the mid-term US elections; second, she will explain the advantages of the British constitution, under which her control of the House of Commons, of the national exchequer and of the calendar should enable her to avoid a similar fate; third, she will engage him in lengthy debate about the sensational mini-summit at Reykjavik.

This last will obviously be the central question on her mind. The difficulty is that, even though the summit took place a month ago, the British Government and its most expert advisers still do not know what happened.

By this I do not just mean that Whitehall is uncertain about the details of the two negotiating positions. In this respect London does not seem to be much worse placed than Washington and Moscow: disagreement between the superpowers about precisely how far they got at the Hofdi House appears to be so deep that Mr Eduard Shevardnadze, the Soviet Foreign Minister, felt entitled to stage a walk-out from a session with Mr George Shultz, his American counterpart, at a follow-up meeting in Vienna last week.

Of course, the details of the disagreements are anything but details, apparently minor changes in a word or two would imply massive differences in the international arms control regime. Quite apart from the familiar argument over President Reagan's treasured Star Wars anti-missile defence programme, the two sides seem to have very different recipes for making deep cuts in offensive nuclear weapons.

These differences do not seem significantly to affect the first five years of a proposed 10-year disarmament package, in which long-range strategic nuclear weapons would be cut by half and intermediate-range missiles would be eliminated entirely from Europe. The major disagreements concern the second five-year phase.

The Russians have proposed the elimination of all remaining nuclear weapons; according to early reports, the US proposed the elimination of all remaining *strategic ballistic* missiles (i.e. not bombers or cruise missiles, and not short-range ballistic missiles in Europe), but a later clarification removed the word *strategic* (so as to cover short-range ballistic missiles in Europe). No doubt these uncertainties are only the tip of a vast iceberg, since it is impossible to encompass total nuclear disarmament in an impromptu negotiation in a single weekend in Iceland, without spraying ambiguities around like confetti.

Vast though these differences are, they are not the uncertainties which most trouble the British Government. What London does not yet know is whether anything *real* happened at Reykjavik, or whether it was just a piece of melodrama staged so that the two leaders could outbid each other in claiming to be men of peace.

On the face of it, scepticism is obviously in order. Over the past 40 years the superpowers have not succeeded, despite several attempts, in negotiating reductions in their nuclear arsenals by a single warhead; it must be stretching credulity to imagine that they could seriously intend, as a result of one weekend's debate, to engage in complete or nearly complete nuclear disarmament; it is virtually impossible that the Russians could commit themselves to such a programme without a parallel commitment from three other adversary nuclear powers—China, France and Britain; and it is quite impossible that they could complete such a programme in as short a period as 10 years. On grounds of cynicism and plausibility, it looks like an attempt to con the viewers.

My own hunch, however, is that Reykjavik was a major event in the real world. Instinct supports the general proposition that the two superpowers are negotiating seriously about deep cuts in nuclear weapons, for two reasons: first, this is the only kind of deal which has any chance of extending the life of the 1972 ABM treaty and of preventing the deployment of Star Wars; second, from where we are now, the alternative to a deep cuts *agreement is not a freeze or an extension of the unratified Salt II treaty*, but a world without any arms control at all. Still, these are just hunches on my part.

What is incontrovertible, by contrast, is that Ronald Reagan is being mercilessly and publicly whipsawed by Mikhail Gorbachev, not once but time and again. He was outmanoeuvred into agreeing to the Reykjavik meeting when he wanted a summit in Washington. He was bounced into an unprepared negotiating session on a package which went far further than anything previously contemplated in Washington, let alone discussed with the Nato allies. He was saddled with the apparent onus of having blocked an agreement, through his adherence to Star Wars. And now his Secretary of State is being accused of going back on what Mr Shevardnadze claims was agreed in Reykjavik.

In Geneva a year ago, Mr Gorbachev was made to appear amiable but ineffective; at Reykjavik he took his revenge, and part of the meaning of the recent sequence of events is that he is determined both to hold the initiative, and to ensure that arms control, including curbs on Star Wars, will remain high on the international agenda on Soviet terms. Not merely is the Great Communicator being out-communicated, he is being upstaged and out-manoeuvred as well.

All this is rather worrying for the British Government. In the first place, there is the little matter of Trident. It is already embarrassing to be engaged in the acquisition of a new submarine missile system which could quadruple the number of British nuclear warheads, at a time when superpowers are talking of a 50 per cent cut in their arsenals. It could be even more embarrassing if they both started talking, with the appearance of seriousness, about a non-nuclear world. It could be more than embarrassing if apparent signs of progress towards such a world were to coincide with a British election campaign.

Such a coincidence is unlikely, however. Mr Nigel Lawson's public spending package clearly points to a British election next year; whereas the inference of Reykjavik is that, while the Russians will pursue the quest for a far-reaching arms control deal in Geneva, they do not expect to conclude it before the next presidential election, and perhaps do not want to conclude it with Mr Reagan, because they already know he will not give them what they want on Star Wars.

But the deeper worry highlighted by Reykjavik is over America's role as leader of the Atlantic Alliance. Over the years, US leadership has regularly been criticised, often with justice: but the fundamentals of the international strategic regime remained remarkably stable. Then came Ronald Reagan. Three years ago, with Star Wars, he casually announced a strategic revolution. Last month at Reykjavik, he was debating another revolution, the elimination of ballistic missiles. Neither revolution can be delivered as advertised, but Europe needs to ponder the lesson: for this President, America's security is separate from Europe's. That lesson is beginning to be learned in London, where the idea that Britain is a European rather than a transatlantic country is belatedly making headway, even where one might least expect it. Mrs Thatcher, of course, remains an unreconstructed Atlanticist.

US SOVIET NUCLEAR BALANCE

	US warheads	Soviet warheads
Intercontinental ballistic missiles	2,110	6,420
Submarine-launched ballistic missiles	6,656	3,216
Bombers	4,080	1,080
Total	12,846	10,716

Source: The Military Balance, IISS

Economic Viewpoint

Too risky for an election

By Samuel Brittan

There is much to be said for fully joining the European monetary system. One of the reasons for joining the system is not the soft option which the hon. gentleman implied. It would not be a soft option. . . . The right hon. gentleman is extremely percipient in noting that, if we were to join the EMS fully, sterling would be linked to the D-Mark.

—Nigel Lawson, Question Time, Nov. 6.

FOR ALL the conventional wisdom to the contrary, I do not think Mrs Thatcher will be able to risk an early election. In 1983 she was persuaded, against her initial instincts, to run on the Falklands factor, nearly a year before the expiry of her term. The present Parliament does not expire until June 1988. The Chancellor's initial desire to go the full length was right; and he should not now be back tracking.

If the Government again throws away the last year or two of its term to seek re-election, the electorate will wonder what it has to hide.

We know that present economic strategy—unbuttressed by EMS membership—is exposed to many risks.

After the end of the 1987-88 financial year, if the gamble has paid off, the Government will legitimately be able to ask for a new mandate. If it cuts and runs before, it will not deserve to be given the benefit of the doubt. And if Downing Street thinks that this verdict will remain locked in decently obscure learned columns, it will soon be disabused.

Some of the instant reaction to the Autumn Statement has confused the political economy, the fiscal arithmetic, and the macroeconomics. The political economy is simply that Mrs Thatcher has abandoned her attempt, not even to cut public spending, but to *hold it* stable. She should explain her U-turn to the nation.

The more immediate fiscal background is that the unpublished forecasts for 1987-88 revenue are far more buoyant than generally realised. This reflects both expected above-trend growth and soaring company profits. Unfortunately, this latter item does not augur well for wage inflation.

The Treasury is at last working on an equation trying to link the two. Wage inflation, too, is good for revenue, so long as the boom lasts.

The "planning total" for spending for 1987-88 is now put at £148.6bn, some £4.7bn above earlier plans and — more important — £8.4bn or 5.8 per cent above the expected outturn in the current year, all in cash. Even so, revenues are now expected to be sufficient to finance tax cuts while sticking to the original intention to run a Public Sector Borrowing Requirement in 1987-88 amounting to 1½ per cent of GNP or £7bn *to £7½bn. That is why the* Chancellor could say categorically on Thursday as he has not done in previous autumns: "There will be no expansion of the PSBR."

Now for the macroeconomics. Some of the Chancellor's advisers want him to use the margin not to cut tax but to reduce the PSBR still further. One argument is that just as the *Budget deficit should be allowed* to rise in a recession, it should be reduced when growth is above trend. To carry this argument further leads to disputes akin to that of schoolmen on the number of angels able to dance on the head of a pin.

The best single indicator of policy stance, Nominal GDP growth, is now put at 7 per cent for 1987, some ½ per cent higher than before—and 1½ per cent higher than the estimate for the current year. If the Treasury simply wanted to tighten up all round, it would have some case. The worrying feature of its stance is that it seems to want to tighten fiscal policy to allow interest rates to fall.

The logic is the wrong way round. The most important monetary aim should be to keep sterling in the DM 2.80 to DM 3.10 range or not let it go too far below 68-70 on the trade-weighted index. Interest rates need to be whatever is required to maintain sterling in that range if inflation is not to take off. Then, and only then, can we sensibly determine fiscal policy.

What is massively clear from the Treasury's *Economic Prospects* is that, thanks to the Prime Minister's obstinacy over the EMS, the Government has failed to consolidate inflation at the 2½ per cent rate it reached in the summer. The annual increase in the RPI is expected to rise from 3¼ per cent in the present quarter to some unspecified rate around 4 per cent some time in 1987 before slipping back to 3½ per cent at the end of that year.

France, without undergoing any of the tensions of "Thatcherism," has reduced its inflation rate to 2 per cent, under a succession of conservative, socialist and cohabitating coalition governments, thanks to the EMS commitment.

The Treasury blames the expected UK inflationary bulge on the rise in mortgage rates, but this in turn reflects the weakening of sterling which made it necessary to raise interest rates. If there is further downward pressure on sterling, the Government will have to choose between the inflationary effects of a lower pound and the effects on the RPI of higher mortgage rates—the latter have the advantage of being more easily reversible.

The Treasury's own, more direct estimate of manufacturing costs is none too reassuring. Because of a once-for-all 11½ per cent fall in fuel and material costs in 1986—the benefits of which have been thrown away—total unit costs are expected to rise by only ½ per cent in 1986. Next year they are expected to rise by 3½ per cent. This is despite an expected improvement in productivity and slowdown in earnings (the latter hopeful in view of industry's response to devaluation). Yet the rise in "output prices" is expected to fall from 4 per cent in 1986 to 3½ per cent next year. Difficult to believe.

Many critics will focus on the forecast of a £1½bn current payments forecast in 1987—and a much higher number is supposed to have emerged from the Treasury's computer before "judgment" was applied. A temporary payments deficit, even if larger than forecast is not a cause for jumping off Bracken House, provided it is not part of a continuing upward trend which will undermine sterling. The Treasury's more detailed volume forecasts do, however, suggest a deterioration between the first and second halves of next year.

The heart of the Treasury's forecast is in the table—unfortunately in funny money, so that leakages of demand into inflation, as distinct from imports, do not show.

The line showing a continuing 3½ per cent real increase in domestic demand is credible enough, and may even be too low. The same applies to the rise from 1 to 3 per cent in the growth of exports, in view both of sterling's depreciation and the improved growth of Britain's overseas markets. The forecast may also underestimate the growth of invisibles.

The estimate that looks most suspiciously optimistic is the expected decline from 5 to 4½ per cent in the growth of imports. The most likely balancing force, should the economy overheat, would be an increase in interest rates which—via its effects on stocks—would slow down both demand and imports.

The Treasury is pessimistic about the amount of devaluation required to effect a given improvement in the trade balance. This pessimism is dangerously self-justifying, because it reflects (a) the well-justified scepticism of businessmen that any exchange rate change is here to stay and (b) the erosion of past depreciation by domestic wage inflation. Under a different environment, with a commitment to maintain the present exchange rate, and a belief that wage increases would not be validated by depreciation, the response would be very different.

There is a strategic choice to be made. Either we give priority to the crude balance of payments figures and try to make devaluation work by administering large and repeated doses, or we concentrate on currency and price stability as the longer-run but surer route to external balance. The latter course involves the EMS, the former a retreat to the habits of France before De Gaulle.

TREASURY FORECASTS

(Percentage changes on a year earlier, at constant prices)

	1985	1986	1987
Domestic demand	3	3½	3½
Exports of goods and services	6	1	3
Imports of goods and services	3	5	4½
Domestic production: GDP	3½*	2½	3

* 3 per cent allowing for miners' strike. Source: Autumn Statement

The unpublished revenue forecasts for 1987-88 are far more buoyant than generally realised

Letters to the Editor

Markets for sugar

From Mr G. Nath

Sir,—There has been much comment in the press in recent months about sugar in this country and the future of the sugar beet industry, mainly occasioned by the prospective takeovers currently the subject of deliberation by the Monopolies and the Mergers Commission.

The discussion so far has concentrated on beet sugar and its problems and little attention and regard has been given to the other source of supply, namely cane sugar imported under the Lome Agreement with the EEC, from Commonwealth countries, and making up some 50 per cent of sugar consumed in the UK.

For many years the Commonwealth Sugar Agreement was the vehicle by which these supplies were imported. When the UK joined the EEC and this agreement was superseded by the Lome Convention, assurances of a quite specific nature were given both by the Community and the UK Government *of continued* access for sugar from developing members of the Commonwealth. For these Commonwealth countries the continuation of this relationship is of the greatest economic and social necessity. Recent events, however, appear to be diluting the strength of these assurances, despite the fact that they have been repeated over and over again.

It is of the greatest *concern* to us that whatever the future of British Sugar, the outlet in the UK for cane sugar is preserved at its present level. If this were not done, we would have no alternative home for our sugar, as suitable refinery outlets are not available in the EEC for any of the additional quantities that might be displaced from the UK. The beet sugar industry has always been the main source of supply for most other EEC members, but the UK has had traditional links with cane for most of it sugar going back over many hundred years.

We are not of course asking for anything more than the maintenance of undertakings freely given in the past and *of* continuing and *serious* validity. It would have the greatest social and economic consequences for our economies, if this long-standing trade was in any way damaged. Tropical agriculture does not enjoy the range of alternative crops open to Europe and sugar is one crop that can be grown and provide an income for many of us grappling with all the problems of small-island or land-locked economies.

The maintenance of our position in the UK is not a marginal matter that we can shrug off, but it is of fundamental importance to us, and we watch with concern the apparently increasing risk to *such a major part of our* economic livelihood.

Gian Nath
(Chairman, ACP High Commissioners' Sugar Committee).
Mauritius High Commission,
32-33 Elvaston Place, SW7.

Plessey and GEC

From Mr M. Lester

Sir,—I read with interest both Justinian's article (October 27) on UK takeovers and US law, which discussed the decision of the US district court in the unsuccessful action brought by Plessey alleging violation of the US securities laws by GEC in connection with its take-over offer, and the letter from Mr Warren J Sinsheimer, deputy chief executive of Plessey (November 3).

Mr Sinsheimer complains of "significant inaccuracies" in the Justinian article and of its thesis that Plessey filed suit against GEC merely as a delaying tactic in response to GEC's bid. But he fails to mention that the suggestion that it was "at least possible that Plessey's efforts were motivated by a desire more to delay than to inform, more to gain an advantage than to preserve neutrality" was made by the US district judge, not Justinian. Those who read a full report of the case will be left in no doubt that Justinian's article fairly and accurately presents the court's ruling.

M. Lester,
General Electric Co,
1 Stanhope Gate W1.

Giving to charity

From the Director, Institute of Charity Fundraising Managers

Sir, — Nikki Tait's excellent article (November 1) on payroll giving to charity, highlights some of the very real problems which remain unsolved.

At the end of March I chaired a meeting which sought to clarify the Budget proposals with regard to charities. I was quoted by the Chief Secretary of the Treasury in the debate on the Finance Bill as saying in my summing up that I welcomed the changes proposed in the Budget. It was, while true, not the whole truth.

I was further quoted in this newspaper as saying that it was up to the charities to take advantage of this opportunity *and up to the Institute of* Charity Fundraising Managers and its trust to equip charity fundraisers to do this. I went on to say (and sadly this was not reported) "If we are to achieve this, clear, precise and concise guidelines need to be drawn up quickly by the Government, and I very much hope that we shall be included in the consultation process."

The Inland Revenue guidelines have at last, belatedly, appeared. We were not given sight of any draft and there are, as your correspondent says, some areas in which the rules are not specific enough.

To give an example, although a time limit is set for employers passing contributions to agency charities there is no time limit for an agency charity to pass on those contributions to charities. Not only could this lead to just the sort of abuse which the Inland Revenue wishes to avoid but it might make employers and employees reluctant to take the plunge.

The Government did offer a real opportunity to increase voluntary income to charity in Britain when it proposed this £100 tax break to individuals. It would be so sad if the scheme *did* not take off through lack of precision at this stage.

Diane Yeo,
14 Bloomsbury Square WC1.

Changes at the Exchange

From Mr J. Torrie.

Sir,—Not all small member firms of the Stock Exchange regard the International Securities Regulatory Organisation merger proposal as sinister. ISRO's financial resources dwarf those of the Stock Exchange and any suggestion that ISRO is out to assimilate members' assets may be disregarded. The inclusion in the ISRO membership of such names as Bank of Scotland and Baring Brothers is taken here as a guarantee of good stewardship and proper behaviour.

I am more attracted to the alternative view that ISRO is prepared to indulge the Stock Exchange's occasional quaint habits in order to develop an essentially sound system into one of the world's top three markets. This is a compliment which no other market in the same time zone has been accorded.

In the same way that the Federation of the Stock Exchange in 1973 enabled small firms to participate in "Talisman," TOPIC, and now SEAQ, the creation of an enlarged Stock Exchange will surely facilitate the development of sophisticated systems that would otherwise have not been within their scope.

It is not only the larger groups which are likely to benefit from the influx of new international business to the proposed new Stock Exchange; small firms may anticipate spin-offs in the future. Founder member firms, both large and small, may look forward with confidence to a new era, where they may occupy a privileged position.

J. Torrie,
Torrie & Co,
6 Hope Street,
Edinburgh.

Economics and the environment

From Dr L. Brookes

Sir,—Much of what Jonathon Porritt said (October 29) needed saying. Improvements in the environment have to be paid for just like any other improvements in our living standards. It is not so long ago that the environmentalists were saying that all we needed to do was opt for zero economic growth.

Unfortunately he could not resist ventilating his well-known bias against nuclear energy. He chose to attack its economics, flying in the face of the recent OECD report which showed a substantial economic advantage for it in a wide range of countries including the UK.

Pace Mr Porritt, the US nuclear industry has not collapsed any more than has the power plant industry generally. Cancelled orders for coal-fired plants in the US since the first oil crisis exceed those for nuclear plants. It has not been a case of "consumers refusing to pay more for a more risky energy source": those utilities with the highest proportion of nuclear plants have the lowest tariffs. The industry does have a problem: it arises from the American system of private utilities looking to the open market for capital for new plants but being subject to a form of public control of their incomes that is biased against capital-intensive options. This may drive utilities to short term expedients to postpone investment in large cost-efficient plant.

It is moreover wildly wrong to represent the US as having made a sea change to conservation, combined heat and power and "renewables" for its energy supply. There has hardly been a ripple in the long term trend of improving energy efficiency of the US.

(Dr) L. G. Brookes,
16 Ipswich Road,
Bournemouth, Hants.

FINANCIAL TIMES

Monday November 10 1986

Roderick Oram on Wall Street

Dealers hammered at auction

A CADILLAC limousine glides up to the Federal Reserve Bank of New York's squat, grim fortress in the heart of Wall Street and parks illegally outside the front door shortly before bids close on the latest Treasury bond auction.

Inside the car, two employees of Nikko Securities are on the telephone to their firm's 37th floor trading room in a nearby skyscraper which looms over the Fed. Up there, colleagues are holding last-minute consultations with the firm's head trader in Tokyo even though it's nearly 3am Japanese time.

One last check of the New York market screens and Nikko's Wall Street team fixes the price and size of its bid for the $9.25bn of 30-year bonds. Word is passed in Japanese over the telephone to the limousine duo who scribble down the details, scramble out of the car and run up the steps into the Fed. They make the 1pm deadline with seven minutes to spare. It's a breeze. They had only seconds to spare on the previous day's 10-year note auction.

This scene of Yankee ingenuity and Nipponese efficiency was played out three consecutive days last week for the Treasury's quarterly refunding. Other firms did it differently. Those with the coveted status of primary dealer, eagerly sought by Nikko and other foreign firms, used their own phone-equipped booths inside the Fed. Less fortunate ones staked out public payphones in surrounding streets. One firm was rumoured to have missed an August auction when its runner was knocked down by a car.

Bond dealers should have been so lucky last week. For many the refunding felt more like a tangle with a Mack truck. The auctions had gone from bad to worse as retail investors walked away from low yields leaving them to count the cost of large inventories of unsold new securities.

Only a week earlier the picture looked far brighter. Dealers believed that Japanese would be heavy buyers of the 10-year and 30-year paperin the wake of Tokyo's discount rate cut and yen-dollar stabilisation agreement with the US. Domestic demand also was thought to be good.

A leading Wall Street firm, respected for its professionalism, disliked for its ruthlessness; leapt aggressively into the first auction last Tuesday by organising a cabal of fellow firms, as one competing head trader described the play, to bid well below the investor-accepted rate indicated by the "when issued" market. They cornered the $10bn worth of three-year notes offered, hoping to make large profits selling to dealers short of the paper. But investors and dealers were disinterested in the low yields and left the cabal holding the bag.

While the opportunists were losing their shirts, the Republicans were losing the Senate in the mid-term elections. The political upset might have softened up the bond market on Wednesday if the dollar had not rallied on news of poor West German industrial production figures.

Bidding was more cautious for Wednesday's $9.75bn of 10-year notes. "After Tuesday, we decided we had to offer something resembling a gift horse on a silver platter," the trader said. But investors expectations were now rising faster than the yields so they, particularly the Japanese, only nibbled at the notes, leaving dealers with even more paper on their hands.

Ahead lay the main course – Thursday's auction of $9.25bn of 30-year bonds. Many on Wall Street still hoped that the Japanese would buy up to half the issue. But the Japanese investors were already backing away, smarting from their capital losses since the August auction and unsettled by overnight comments from their finance minister that implied the dollar-yen plan was not as solid as it had seemed.

Domestic buyers were losing their appetite as they became more convinced that growth, and hence inflation and interest rates, were picking up.

Thursday morning, dealers worked their telephones with the usual pre-bid vigour trying to discover from their Street sources other firms' intentions.

Rumours spread that employment figures to be released on Friday would show creation of far more jobs than forecast, another sign of economic acceleration. Cash and future bond prices slipped further.

Dealers bid relatively cautiously to produce an average yield of 7.54 per cent but this did little to stimulate demand – the Japanese took only one third – so prices kept falling. Investors' ideas of suitable yields seemed to be rising faster than dealers were cutting prices.

By Friday morning, when strong employment figures pushed down prices even further, dealers still had half the $9.25bn of 30-year bonds on their books.

Robert Thomson watches Peking take lessons in the capitalist power game

China takes a tip from Wall Street

THE CHINESE like to say that their economic reform programme is building "socialism with Chinese characteristics." In the next few days, a powerful delegation of Wall Street brokers, visiting Peking to teach the American way of money-making, will find that high finance there also has distinctly Chinese characteristics.

China's central bank, the People's Bank, is hosting the creme de la creme of capitalism in the hope that the country will learn a few tricks of the trade for its own forays into the world's financial markets and for its plans to stimulate the domestic market.

Mr James Balog, vice-chairman of Drexel Burnham Lambert, will lecture Chinese officials on the permutations and combinations of investment instruments, while the senior partner of Milbank, Tweed, Hadley and McCloy, Mr Elliot L. Richardson, is due to explain the regulation, or lack of it, of financial markets.

Other visitors of note include Mr John J. Phelan, chairman of the New York Stock Exchange, which has co-organised the symposium, and Mr William A. Schreyer, chairman of Merrill Lynch. The 20 or so men of capital have brought more than know-how and gung-ho along. The conference headquarters has acquired a Manhattan-like mania in a city in which the pace is most politely described as languid.

"Ring me at three in the morning if you like. I am working here," assured one of the New York organisers, as he rushed out to meet an aeroplane. Meanwhile, several People's Bank of China staff sat idly in a corner engaged in the time-honoured practice of clock-watching.

The symposium, the first organised by the NYSE in a communist country, is intended to educate the Chinese about the way Wall Street handles money, and teach the New Yorkers about China's economic development and needs, according to Mr Richard Torrenzano, a NYSE spokesman.

"We think it is a very good time to be in China. They have recently improved conditions for foreign investment. They are talking about bankruptcy. They are committed to economic growth and modernisation," Mr Torrenzano explained.

Asked whether the visitors would provide instruction on how to overcome political barriers – advice that would be handy for Chinese reformers hindered by the more conservative party officials – Mr Torrenzano said that the conference would "put politics aside": "We are here to talk about the American system of capital raising."

Perhaps the Chinese system of capital raising will provide some salutory lessons itself. One of the first Chinese factories to raise capital from private citizens was the Tianjin bicycle plant, which is renowned for its Flying Pigeon-brand machine, commonly regarded as the Rolls-Royce of bicycles.

The factory has said it is issuing "shares" worth $2.5m but purchasers will not have a stake in the company, and private sales of the "shares" are illegal. The attraction is that buyers get tokens entitling them to buy a bicycle and enabling them to jump a long queue.

The first "stock exchange" since communist rule began in 1949 opened several months ago with much fanfare in the northern city of Shenyang. The exchange, which bears a striking resemblance to a British betting shop, has two transaction windows, where bonds are sold. The bonds generate no interest, but buyers are entitled to participate in a draw for an apartment.

Much publicity also surrounded the opening several weeks ago of a Shanghai "stock exchange," although only two companies have received approval from the People's Bank to issue stock at the exchange. Shareholders are restricted to a return of no more than 7.8 per cent in dividends.

The Chinese Government has allowed such ventures as a means of persuading the masses to part with their money. Chinese are reluctant to put money in the bank because of fears for its safety and the Government has tried to get around the psychological block by allowing various banks to issue bonds.

A very senior Chinese financial official confided that it would be "a very long time" before China has a "real" stock exchange.

International effort sought to solve world shipping crisis

BY WILLIAM DULLFORCE IN GENEVA

A COMBINED assault by governments, shipowners, shipbuilders and bankers on the imbalance between the supply and demand of ships is being called for today by the United Nations Conference on Trade and Development (Unctad).

A decade of scattered national and regional attempts has failed to correct the imbalance. Surplus tonnage last year was still equivalent to 24.3 per cent of the world merchant fleet while world shipbuilding carried an excess capacity of about 40 per cent, the Unctad secretariat said. It also pointed out:

● Subsidies to shipyards of between $4bn and $5bn a year are continuing to stimulate the ordering of too many new vessels, particularly tankers and dry bulk carriers.

● Yards are still signing contracts without any assurance of adequate equity involvement by the orderer or evidence that post-delivery finance has been arranged.

● Commercial banks which have advanced credits against inflated hull values to hold about $20bn in bad debts on ships.

Governments, through tax concessions and investment grants, were encouraging speculative investments in the building of new ships, the secretariat noted in its report to Unctad's shipping committee which meets in Geneva today.

Many of these ships were then operated under flags of "open registry" countries such as Liberia and Panama which offer shipowners lower taxes and freedom in the choice of crews.

But, the Unctad secretariat warned, no substantial increase in the volume of international trade, in particular of bulk commodities, could be expected in the foreseeable future. The only way it sees of bringing about a clearer balance between supply and demand in world shipping is to reduce the supply of tonnage.

To help do this, the secretariat urged the Unctad shipping committee to call a meeting before the end of next year of governments, shipbuilding and shipowning associations, and ship-financing sources, including commercial banks.

Unctad said previous attempts at restructuring by major shipbuilding countries or groups such as the EEC had barely alleviated the situation. Measures taken to meet the special interests of a group of countries or businesses had not been fully effective.

Unctad claims to be the only organisation with worldwide representation tracking shipping and shipbuilding developments. A "fresh and thorough" discussion among all parties under its aegis could provide a catalyst for ideas that could lead to lasting solutions.

Among initial measures put forward by Unctad economists is a scheme for reducing world shipbuilding capacity by 20 per cent.

Chirac row over disclosure

BY DAVID HOUSEGO IN PARIS

MR JACQUES CHIRAC, the French Prime Minister, seems likely to be caught in an embarrassing political row after the decision by the Washington Times to publish the transcript of the off the-record interview the paper held with him last week.

The transcript confirms Mr Chirac did imply that the Israeli intelligence services were behind the attempt to blow up the El Al airliner in London last April. Mr Chirac – according to the transcript – said that Chancellor Helmut Kohl of West Germany and Mr Hans Dietrich Genscher, the Foreign Minister told him they believed the attempt was a direct provocation by the Israeli services (Mossad), and that the Syrian Government was not involved.

Both the West German Government and Mr Chirac have issued categoric denials of the Washington Times report. Mr Chirac met Chancellor Kohl in West Germany yesterday but both declined to comment further.

At the very least, the publication of the text is likely to undermine Mr Chirac's credibility in the handling of foreign affairs, while reviving old charges of his hotheadedness and impetuosity.

Coming on the eve of the EEC meeting in London on international terrorism and the prospect that both France and West Germany will support limited sanctions against Syria, Mr Chirac's remarks also show up the contradictions and ambiguity in French official attitudes on the issue. This is likely to be underlined by the opposition in France, and not least by President Mitterrand, who is anxious to exert a stronger influence over foreign affairs.

The most likely explanation of Mr Chirac's gaffe is that he got carried away while talking off the record – as he has been known to do before. In involving the Israelis through the mouths of the West Germans, his aim was seemingly to minimise the scope of the sanctions against Syria.

Mr Chirac's Government has no wish for strong measures against Syria, which it sees as a key element in French policy in the Lebanon, and in preventing terrorism in France. But Mr Chirac is under strong pressure to take action in support of Britain

E. F. Hutton rebuffs $1.6bn offer

BY WILLIAM HALL AND CHARLES HODGSON IN NEW YORK

E. F. HUTTON, the troubled Wall Street brokerage firm, has rebuffed a $1.6bn takeover approach by American Express, the US financial services group.

Hutton confirmed yesterday that it had held "preliminary discussion" with Shearson Lehman Brothers, the brokerage arm of American Express, but that the talks had ended and were unlikely to resume.

It said "no formal offers were made in the course of these discussions, but Wall Street sources said yesterday that Shearson had offered to buy Hutton for between $50 and $52 a share."

This offer was rejected by the Hutton board on Friday night, the sources said.

It is understood that American Express is unwilling to proceed with a contested takeover bid for Hutton. But Wall Street sources believe Hutton's future as an independent firm remains in the balance. It has been the subject of takeover speculation for many weeks.

According to a report in the New York Times, Hutton on Friday night told Shearson that its board would consider an offer of at least $55 per share or $1.8bn. Hutton also reportedly wanted the offer to become non-negotiable once Shearson had examined Hutton's finances, and to be conditional on Shearson retaining most of Hutton's senior management. Shearson was said to have rejected these terms.

Hutton refused to comment on the report yesterday, saying it had nothing to add to its statement.

A link between Hutton and Shearson would by some measures create the largest securities firm in the US.

Hutton, which was founded in San Francisco in 1904, reported a 22 per cent fall in earnings for the first nine months to $43.6m

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	-	—	—	Dubrovnik	-	—	—	Malta	S	20	68	Rhodes	-	—	—
Algiers	-	—	—	Edinburgh	C	11	52	Manchester	C	10	50	Rio de J'o	F	29	84
Amsterdam	F	8	46	Faro	-	—	—	Manila	-	—	—	Rome	F	18	64
Athens	S	16	61	Florence	C	12	54	Melbourne	F	19	67	Salzburg	-	—	—
Bahrain	S	31	88	Frankfurt	F	8	46	Mexico City	F	26	79	San Francisco	F	19	66
Bangkok	F	25	77	Funchal	-	—	—	Miami	F	29	85	Seoul	F	7	45
Barcelona	S	18	64	Geneva	C	10	50	Milan	-	—	—	Singapore	F	30	86
Beirut	-	—	—	Gibraltar	S	20	68	Montreal	R	12	54	Stockholm	S	7	45
Belfast	C	12	54	Glasgow	R	11	52	Moscow	C	-1	30	Strasbourg	-	—	—
Belgrade	S	13	55	Guernsey	C	10	50	Munich	S	8	46	Sydney	F	19	66
Berlin	S	9	48	Helsinki	R	4	39	Nairobi	T	25	77	Taipei	F	21	70
Biarritz	S	17	63	H. Kong	S	23	73	Naples	F	18	64	Tangier	-	—	—
Bombay	S	31	88	Innsbruck	S	7	45	Nassau	-	—	—	Tel Aviv	-	—	—
Bordeaux	C	6	43	Inverness	F	11	52	New Delhi	S	25	77	Tenerife	-	—	—
Brussels	S	7	45	Islamabad	F	28	82	New York	C	17	63	Tokyo	C	12	54
Budapest	-	—	—	Istanbul	F	10	50	Nice	F	18	64	Toronto	F	8	46
B. Aires	R	23	73	Jakarta	F	30	86	Nicosia	C	15	59	Tunis	-	—	—
Cairo	C	16	61	Jersey	C	10	50	Oporto	-	—	—	Valencia	-	—	—
Cape Town	S	21	70	Jo'burg	F	15	59	Oslo	S	7	45	Venice	S	10	50
Caracas	C	26	79	Lima	C	21	71	Paris	S	7	45	Vienna	S	9	48
Casablanca	-	—	—	Lisbon	C	11	52	Peking	S	15	59	Warsaw	C	8	46
Chicago	F	0	32	London	C	10	50	Prague	-	—	—	Washington	F	20	68
Cologne	S	7	45	Los Angeles	F	14	57	Reykjavik	-	—	—	Zurich	-	—	—
Copenhagen	S	10	50	Luxembourg	S	3	37								
Corfu	-	—	—	Madrid	S	11	52								
Dallas	-	—	—	Majorca	F	19	66								
Dublin	C	13	55	Malaga	C	20	68								

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Boost for Kohl in regional elections

By David Marsh in Bonn

WEST GERMANY'S Opposition Social Democratic Party (SPD) yesterday suffered a crushing defeat in important regional elections in the northern city of Hamburg.

Sizeable gains by the conservative Christian Democratic Union (CDU) – ruling party in the Bonn coalition but in the Opposition in Hamburg for 30 years – last night gave Mr Helmut Kohl, the Chancellor and CDU chairman, another powerful boost in the campaign leading to the country's general elections on January 25.

Last night's results, in which the SPD conclusively lost its absolute majority in the city, look likely to lead to several weeks of complicated coalition negotiations between the SPD and CDU over forming a new government for the Hamburg city-state.

With much of the vote counted, computer projections last night gave the CDU the highest share of the vote with 42.4 per cent, up from 38.6 per cent in the previous Hamburg elections in December 1982. The SPD crumbled to 41.4 per cent from 51.3 per cent.

The anti-nuclear Greens ecology party boosted its share of the vote to 10.4 per cent from 6.8 per cent.

However the SPD last night ruled out any question of a Hamburg coalition with the Greens.

The SPD last night looked likely to have 53 seats in the new Hamburg parliament, against 54 for the CDU and 13 for the Greens.

The outcome cruelly underlined a growing dilemma facing the SPD on a national level. It has been severely squeezed in recent months on both right and left flanks between the increasingly self-confident CDU and the Greens – which has turned itself into the natural party of protest against nuclear energy and other symptoms of the German industrial state.

Local issues, including a series of municipal corruption scandals implicating top SPD members, as well as the row over the near-bankrupt Neue Heimat property group, clearly played a strong role in yesterday's Hamburg result.

But the setback in a city regarded as one of the SPD's principal power bastions is also likely to be interpreted as another damaging indictment of the leadership style of Mr Johannes Rau, the SPD's candidate for the chancellorship in the January poll.

The Free Democratic party (FDP) the junior partner in the Bonn coalition – unrepresented in the Hamburg parliament for the past eight years – last night looked to have failed again to cross the 5 per cent hurdle necessary to win a place in the city assembly

Rhine pollution spreads

Continued from Page 1

tries, published yesterday in Bonn by the SPD, accused Sandoz of not taking adequate safety precautions in the chemical warehouse where the fire broke out. The report was drawn up after experts from the association visited the works last Tuesday.

Water authorities along the Rhine, which have closed down river-side pumping stations to protect water supplies, have ruled out any general shortages. Several areas have, however, brought in emergency procedures, with supplies in two small towns near Bonn cut off, and children and animals being kept away along its entire length of the river.

In the Netherlands the Ministry of Water Works ordered cities to stop taking drinking water from the Rhine, advised farmers to keep cattle away from the river and sought to funnel the poisoned spill as quickly as possible to the North Sea.

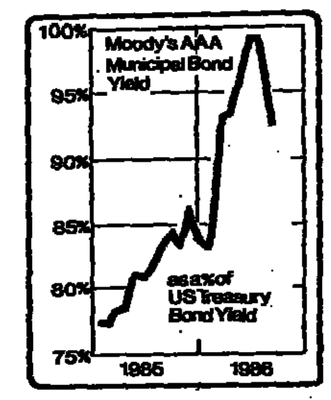
Some sluice gates in the Rhine delta were to be closed to keep the band of polluted water from washing into estuaries where fish could be endangered. River fishermen were advised to halt their activities until the pollution passes but there is not expected to be the same numbers of dead fish as in Germany.

The level of toxic chemicals in the river at Lobith on the Dutch-German border was six times as high as normal yesterday,

THE LEX COLUMN

No shelter from the storm

LAST WEEK'S Democrat recapture of the Senate may make every current assumption about the monumental US tax reform as full of holes as an old-fashioned real estate tax shelter. But that has not stopped the armies of investment professionals doling out advice on every subject from deductions on vacation homes to the earnings of furniture companies.



Most of America is aware that the Act is supposed to shift the burden of taxation – to the tune of some $120bn – from individuals to companies, or rather their shareholders and employees. Tax bands for individuals have been reduced in number and severity, with a top rate of 28 per cent, while the corporate rate will fall from 46 per cent to 34 per cent at the expense of all manner of very generous deductions.

In fact, high-earning individuals will pay a 5 per cent surcharge so the top band is nearer 33 per cent than 29 per cent: IBM is not about to become a partnership. But capital gains will be treated broadly as income for taxation.

Churning

The market has had no difficulty at all in churning portfolios out of the sectors expected to lose out (real estate, property/casualty insurance, smokestacks and banks) and into the winners from the service industries, retailing, high tech and even tobacco. Relative yields on tax-advantaged bonds were rising as long ago as spring 1985, as the chart shows.

What the market cannot agree about is the big-ticket stuff: whether the reform will truly be neutral in revenue terms or will be rapidly adjusted in deficit-cutting exercises of the Gramm-Rudman type, what will happen to savings and investment and what the national balance-sheet will look like a year or two away after the huge distortions of the transition period.

The most striking thing about the Act is its most un-American dislike of debt. But for the old system of high nominal tax bands, rising interest rates would have bust America in the early 1980s; but the offset of every sort of interest expense from multiple mortgages to consumer credit sustained a leveraged culture, exhorting households to gear up to the hilt – the household savings ratio is only just positive – while companies were converting equity into debt in leveraged takeovers or stock repurchase schemes.

Once the new tax rates are phased in and the only deductible household interest is mortgage payments on a mere two houses, there will be less urge for the public to borrow so as to sweat up its after-tax return. Companies might as well pay dividends on their equity rather than gear up on retained profits to offer shareholders capital gains taxed at the same rate. Falling after-tax rates of return on investment will no doubt make the US economy less resilient to high real interest rates – and borrowing more sensitive to monetary policy.

Borrowing

As the net cost of borrowing rises, companies and households will look more carefully where they invest their money: the retro-active abolition of capital allowances and longer depreciation schedules all round means that steelworks, broken-winded racehorses and Upper East Side high-rises have already gone to a discount. Much of the recent merger and acquisition activity in Wall Street may have been brought forward to enjoy the tax boost not only of junk finance but also of depreciating the target company's assets at stepped-up values.

Investors in the industries seen as losers have cried loud in alarm. It may not have been the tax-writers intention to convert the US from a capital-intensive manufacturing economy into a sort of service paradise, where undepreciable employees are paid a fortune for extracting earnings from fixed capital no more elaborate than a pencil; but the tighter depreciation rules tend to favour labour over capital.

In the case of the most inert form of capital – real estate – the market has now faced up to the monstrous overhang created by the old tax regime.

The downward trend in values has been exacerbated, even in the nicest neighbourhoods, as owners scrabble to realise their capital gains at the old 20 per cent rate before New Year's Day. Whether such suffering industries as steel or oil and gas should be regarded in the same light is another matter; but it could be argued that they would have adjusted to excess of capital in their markets more efficiently and even less painfully without their tax cushions.

Retirement

The emphasis on current rather than deferred income – even retirement accounts have been hammered – does not sound like a recipe for saving. In the very short term, or rather the rest of this month, the cash from cheap capital gains and the remaining tax privileges on consumption might see a consumer Saturnalia even after the motor-buying spree of the third quarter. Further out, the picture muddies.

Obviously, rollicking consumption and weak investment would be the worst sort of treatment for the US current account and the currency; but it may well be that the American public will soon wake up to the comparative virtues of saving over borrowing. A pick-up in capacity use will engender corporate investment, tax or no tax. But if people decide that the main offset to higher savings is not to be higher investment but an increased government deficit or a worsening current account, the present tax reform may not last long on Capitol Hill – or not without renewed lobbying against that excessive saving which has long been the hallmark of Japan.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday November 10 1986

INTERNATIONAL BONDS

FRNs struggle to stay afloat

TALK ABOUT reverse floaters and most lead managers spring to attention with complex formulas linking coupons inversely to changes in Libor, much like Thursday's Y8.5bn issue for the Nordic Investment Bank, writes Haig Simonian in London.

However, the term had very different overtones last week for FRN traders struggling to control a market plunging headlong into the drink. In the circumstances, reverse float sounded more like submerge.

With Limean and Libid-priced issues reeling fastest, price falls were universal. Sovereign paper like the recent Belgium, New Zealand, Ireland and Renfe deals – all priced at Libid flat – lost as much as 40 to 50 basis points over the week. Even "dream names" such as Australia and the UK had a hard job finding buyers. The UK's $4bn floater was being quoted at 99.20 late last week – 47 basis points outside its original 33 basis point fees. That shortfall alone has cost holders $18.8m on aggregate, according to the calculations of one dealer.

The reasons were clear. Libid-based paper costs money for banks funding themselves at or above Libor. Accepting a cost of carry may be appropriate for a market expecting interest rates to fall or when there is the chance of a currency play, but not when there is a heavy overhang of paper.

There was gloomier news to come. Japanese buyers' slimline appetite for long-term US Treasury Bonds at last week's auctions depressed a market which had already discounted healthy Japanese buying interest. Friday's US unemployment figures, suggesting a rather more buoyant economy than expected, added to the gloom as interest rate cuts receded. A marked absence of retail demand for floating rate paper throughout the week as many investors remain chary about the dollar's stability brought to a close a bad week in the FRN market. At least the rumour that Japanese banks would be soon to issue perpetual paper, causing concern about too many perpetuals, proved to be unfounded.

Libor-based paper also suffered, though by no means as heavily as Limean and Libid issues, with falls of around 5 to 10 basis points. Not even rarity value and generous pricing at Libor plus 1/16 helped the Province of Alberta issue, which was trading exactly on its fees at 99.90 bid on Friday afternoon.

Meanwhile, Citicorp's perpetual issue was trading at 99.50 to 99.55, helped to some extent by the relatively small number of US bank FRNs. Some dealers suggested its slow start might trigger problems for the entire sector this week.

Why all that Libid-based paper in the first place? Predatory mandate hunting to gain market share and climb the FRN league tables is not new. Nor, in the past, has it been particularly expensive. Moreover, even Libor-funded banks found they could make good trading profits from Limean and Libid issues against this summer's bullish market when expectations of US interest rate cuts were high.

Could it all have been avoided in the first place? In the present market circumstances, what difference between a Libor-priced issue trading at par and a heavily discounted Libid note – except that investors psychologically prefer the yield of the Libor-priced paper?

The prospects for a continuing bloodbath in the FRN market this week look fairly high. There were bargain hunters around on Thursday and some prices stabilised but the sector shed another 5 to 10 basis points in Friday's trading. Plenty of paper has been finding its way back to lead managers as demand remains weak. Moreover, the prospect of further interest rate cuts is now much more limited.

On the other hand, there are still borrowers in need of money despite the usual downturn in activity towards the end of the year. There are always opportunistic lead managers spotting issuing windows. Moreover, some may still be ready to hold paper on their books.

Elsewhere, the Australian dollar sector showed signs of firmness towards the end of last week. Lead managers took advantage with three new issues on the back of a very firm exchange rate, a healthy domestic market and favourable Swiss and German Press comment. Australian dollar Eurobond volume is still not up to its April-May highs but business is running at around twice the level of three to four weeks ago, according to Hambros Bank.

Meanwhile, fixed US dollar Eurobonds were flat over the week, with prices rather lower on Friday, especially after New York's opening. West German and Swiss markets remained uneventful.

EURONOTES AND CREDITS

Bankers face still lower facility fees

A FURTHER downward shift in facility fees for Euronote loan facilities seems in prospect following the tight terms announced last week on a $200m deal for Rhône-Poulenc, the French chemical company, writes Peter Montagnon in London.

Rhône-Poulenc is paying a fee of 4 basis points flat for its seven-year deal, which is better than rates so far obtained by French state agencies. Although many bankers regard this fee as tight, expectations are that other borrowers will try to ratchet down the terms in a similar way.

The basic message is that the five basis point barrier for facility fees is now perceived to have been well and truly broken. The level of the facility fee is a key ingredient to the terms of a loan facility as it represents the bread-and-butter return to banks over the life of the deal.

Now bankers are looking to see what the terms will be on a $300m facility for Spanish state railways, expected to be given a mandate this week. Expectations are that they will be extremely tight, although one saving grace is that the deal is likely to be on the short side with a maturity of only six years.

A number of fairly sizable operations are in the pipeline, including operations for Algeria and Cameroon, which is due to award a mandate on a $120m World Bank co-financing deal shortly.

Meanwhile there is a fairly steady flow of corporate facilities entering the market. These include a $300m, seven-year deal for Trans-Canada Pipelines led by Morgan Guaranty with a facility fee of 10 basis points and a maximum margin of 15 points. CIBC and Morgan Guaranty are also arranging a $200m, five-year facility for Firemans Fund of the US which carries a maximum margin of ⅛ per cent and a facility fee of 8⅛ points.

Triconinental Corporation, a unit of State Bank of Victoria, is arranging a three-year $150m deal through Chase Asia and AMP Capital Markets. This carries a 7½ point facility fee and a maximum margin of 15 basis points over Libor.

Laird Group has become the latest UK company to announce plans to tap the sterling commercial paper market. It has appointed S.G. Warburg and Samuel Montagu dealers on a £100m programme under which paper can be issued in sterling or in US currency. S.G. Warburg, County NatWest and Samuel Montagu are also dealers on a £200m certificate of deposit facility for Banco di Roma.

Insurance broker incurs loss of $900,000

By Our New York Staff

ALEXANDER and Alexander, the world's second largest insurance broker, reported a third-quarter loss of $900,000 after taking a $16.6m charge from discontinued operations.

The company's net income from continuing operations was $15.7m or 38 cents a share, compared with $17.4m, or 46 cents a share, in the same period last year.

A loss from discontinued operations of $15.3m in the year-ago quarter made the final net $2.1m or 1 cent per share.

Operating revenues increased to $267.4m from $236.3m last time.

For the nine months, the company showed net profits of $44m, or 99 cents a share, against $23.6m or 63 cents a share in the 1985 period on revenues that rose to $786.4m from $673.9m.

A&A also announced yesterday settlement in a case brought against former auditors of the Alexander Howden Group. A&A said the settlement provided for the payment to A&A of $24m by Josolyne Layton-Bennett, De Paula Turner Lake and Peat Marwick Mitchell Bermuda.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	806.9	624.3	1,828.1	3,045.8
Prev	3,990.6	170.9	1,343.8	3,125.0
Other	1,621.3	173.4	41.8	89.3
Prev	1,476.1	9.8	—	27.8
Secondary Market				
US$	24,367.3	1,488.3	12,164.9	6,801.7
Prev	23,037.6	1,135.2	16,617.2	5,276.2
Other	14,544.6	249.8	2,546.5	6,806.4
Prev	16,361.7	140.3	3,089.2	5,347.7

	Cedel	Euroclear	Total
US$	13,089.8	38,137.5	51,227.3
Prev	14,791.9	40,504.6	55,296.5
Other	12,260.9	13,617.2	25,878.1
Prev	13,795.1	12,678.1	26,473.2

Week to Nov. 1986 Source: AIBD

Wickes buys big textile producer in $1.16bn deal

BY CHARLES HODGSON IN NEW YORK

WICKES, the US building products and retail group, said it had agreed to acquire Collins & Aikman, a leading producer of textile products, for $1.16bn in a cash merger.

Wickes said it would begin a tender offer today for approximately 21.8m Collins & Aikman shares outstanding at $53 per share.

Mr Sanford Sigoloff, Wickes chairman, said that New York-based Collins & Aikman would operate as a separate unit with its own management team.

Collins & Aikman, which produces textiles products and wall coverings, reported net profits of $66.4m last year on turnover of $1.1bn. Its stock closed $2¾ up at $38 on the New York Stock Exchange on Friday before the announcement.

Wickes, which filed for Chapter 11 protection from its creditors in April 1982 when it reported a $143.5m loss, has been considering a big acquisition since emerging from bankruptcy proceedings in January 1985.

In August this year the Santa Monica, California group made an unsuccessful $2.1bn cash offer for Owens-Corning Fibreglas. Earlier Wickes' $1.23bn offer for Dallas-based National Gypsum was rejected.

In its last financial year ending in January, Wickes made profits of $76.1m on turnover of $2.8bn. Its stock was unchanged at $4.50 on the American Stock Exchange on Friday.

Mr Sigoloff said the acquisition of Collins & Aikman was "an excellent fit not only because of the added dimension that it brings to Wickes' home furnishings and automotive segments, but also because of the resulting synergy it provides with businesses within those segments."

He added that Mr Donald McCullough, Collins & Aikman chairman, would join the Wickes board.

Mr Sigoloff said that the tender offer would expire on December 9 unless extended.

Burroughs sells Memorex for $550m

BY WILLIAM HALL IN NEW YORK

BURROUGHS, the Detroit computer maker, is selling the bulk of its formerly troubled Memorex computer peripheral operations for $550m to an investor group which includes several senior Memorex executives.

The new company, which will retain the Memorex name, will have its headquarters in London and manufacturing plants in Belgium, Ireland and southern France. It will employ about 6,000. Mr Giorgio Ronchi, the Italian chief executive of the new group, said that it will focus on the growing IBM plug compatible and media markets and will continue to operate in much the same way as in the past.

Burroughs paid $117m in 1981 for the California-based Memorex in a move to acquire the necessary large disk drive technology for its mainframe computers. However, a new generation of memory storage disk drives ran into serious technical problems and resulted in heavy losses for Burroughs.

Burroughs' decision to sell the bulk of Memorex is a step in its already announced plans to sell some $1.5bn of non-strategic assets following its $4.8bn merger with Sperry earlier this year. Analysts expect that Burroughs will announce a buyer for its aerospace and marine group before the end of the year in a move which could raise another $700m.

Mr Michael Blumenthal, Burrough's chief executive, said yesterday that under the restructuring plan Burroughs would retain Memorex's technology in "high-end storage devices," thus giving it a "strong proprietary position in this key element of total storage systems technology."

Mr Ronchi said last night that the parts of Memorex being sold by Burroughs had remained profitable throughout and it was intended that the new Memorex would seek a stock market listing in New York and London as soon as possible.

Duta property placed under receivership

DUTA, the publicly-listed property company controlled by Datuk Yap Yong Seong, a Malaysian businessman, has been placed in receivership, Reuter reports from Kuala Lumpur.

The action was taken by Perwira Habib Bank. Coopers and Lybrand, the accounting firm, has been appointed receivers and managers.

Last February, Datuk Yap, popularly known as Duta Yap, lost control of Sealion Hotels, his major publicly listed vehicle, when the Standard Chartered Bank, his main banker, appointed its own nominees to manage the company. This follows the discovery of big losses in share dealings by one of its subsidiaries, Sealion Investments.

For the year ending December last year, Duta has accumulated losses of 9.33m riggit ($3.5m) and loans of 30m ringgit of which 6m is owned to Perwira Habib Bank.

Shareholders funds amounted to 44m ringgit.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Re-funding rush hits government bond prices

PRICES in the US government bond market fell by more than two points in some cases last week, but traders blamed the sell-off on indigestion problems associated with the November re-funding rather than the outcome of the mid-term US congressional elections.

Analysts had been expecting a much closer battle for control of the Senate and had also been anticipating that the recent cut in the Japanese discount rate would cause Japanese investors to snap up the lion's share of the US government paper on offer at last week's auctions. In both respects, the forecasters were rather wide of the mark.

Mr David Jones of Aubrey G. Lanston noted: "Street professionals made the initial mistake of rushing in and bidding too aggressively for the Treasury's record-sized $29bn re-funding package and leaving retail investors (both domestic and foreign) in the dust."

The performance of the various issues underlines what happened. A week ago the yield on the new three-year notes (6⅜ per cent, due 1989) was being quoted at 6.45 per cent on a when-issued basis and the yield on the 7¼ per cent notes, due 1996, was being quoted at 7.26 per cent. In the run-up to the auctions, enthusiasm was such that traders drove down the yields on the first two issues.

The average yield of 6.42 per cent on the three-year notes was the lowest in 10 years, and the 10-year notes were sold at an average yield of 7.25 per cent. Sensing that demand was not proving to be as strong as anticipated the average yield on the $9.25bn of Treasury 7¼ per cent, due 2016, was bid up to 7.54 per cent but this was not enough to entice Japanese investors, who are estimated to have bought only around $3bn of the new long bond compared with the $6bn-plus they invested in the May re-funding, for example.

By the end of the week investors in the new Treasury issues were nursing heavy losses on their investment and the average yields on the three- and 10-year issues had risen some 20 basis points above the midweek auction levels. Meanwhile, the price of the new long bond had slipped to 98¾, where it yields 7.66 per cent. At this level it is yielding some 25 to 30 basis points more than comparable dated issues at the May and August re-fundings.

US MONEY MARKET RATES (%)	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.10	5.88	5.71	8.91	5.71
Three-month Treasury bills	5.32	5.29	5.06	7.49	5.07
Six-month Treasury bills	5.42	5.36	5.12	7.40	5.08
Three-month prime CDs	5.85	5.71	5.67	8.05	5.46
30-day Commercial Paper	5.80	5.66	5.45	8.05	5.55
60-day Commercial Paper	5.73	5.56	5.55	7.95	5.46

US BOND PRICES AND YIELDS (%)	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99⅝	−1	7.30	7.10	7.14
20-year Treasury	113⅜	−2	8.02	7.84	8.01
30-year Treasury	98¾	N/A	7.66	N/A	N/A
New 10-year "A" Financial	N/A	−1⅛	8.63	8.38	8.50
New "AA" Long utility	N/A	−⅞	9.25	9.20	9.38
New "AA" Long Industrial	N/A	−⅞	9.05	9.00	9.13

Money Supply: In the week ended October 27 M1 rose by $1.7bn to $704.3bn.
Source: Salomon Bros (estimates).

The indigestion in the US credit markets was not helped by Friday's news of an unexpectedly large 298,000 increase in non-farm payrolls in October following an upward revision in the September figures. Aubrey Lanston's Mr Jones senses that "a major change in the market's perception of the near-term economic outlook and prospective Federal Reserve responses appears to be under way."

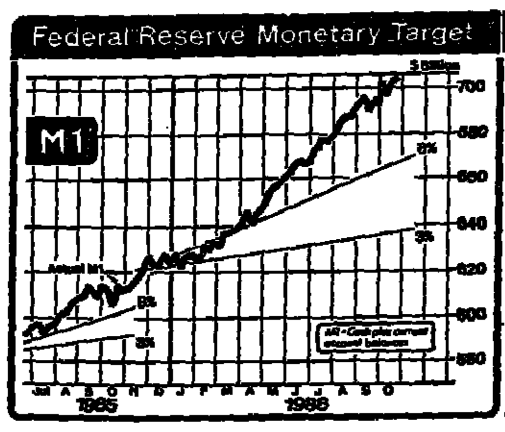
He says that the latest economic data reinforce the more positive tone of earlier September data on construction spending, factory orders, leading economic indicators, and new homes sales. They also follow a welcome drop in the size of the monthly US trade deficit.

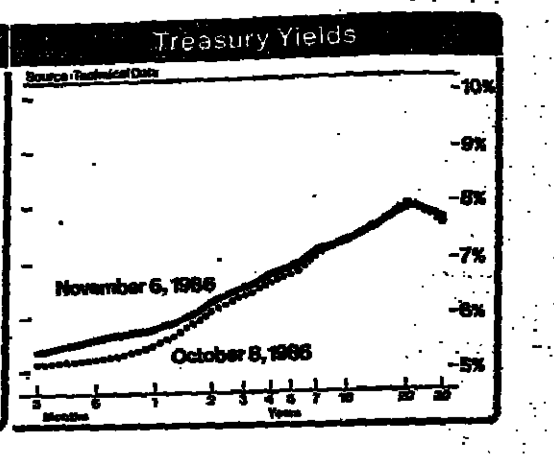
Analysts are now talking in terms of the pace of US economic growth rising from the 2.4 per cent in the third quarter to perhaps 3.5 per cent in the current quarter. As a result, hopes of an early cut in the discount rate are fading fast. The West Germans have made it clear that they will not follow the Japanese and cut their discount rate and the increasing feeling on Wall Street is that the Federal Reserve will probably delay any further interest rate cuts until the new year.

Smith Barney, for example, believes that the US gross national product will grow by 3 per cent or less in the first quarter of 1987, "which leaves open the good possibility of a discount rate cut at that time."

However, most analysts believe that the Federal Open Market Committee meeting last week probably voted to leave monetary policy unchanged.

One piece of good news for the credit markets has been the behaviour of the dollar in the aftermath of the elections. It remained remarkably stable at around DM 2.06 and Y163 following the news that the Democrats now control both Houses of Congress. Nevertheless, the recent stability of the US currency has surprised some foreign exchange experts who still think that it could resume its downward decline in the not too distant future.





On the political front, the general view on Wall Street is that last week's election results were a "non-event," in the short-term at least. Mr Michael Metz of Oppenheimer and Co says that he does not think that the outcome will lead to any significant change in administration policy nor does he think that it will force the Government to "address the real problems we face."

Dr Allen Sinai of Shearson Lehman Brothers says that the real importance of the election and its aftermath is "probably more the directions that might be indicated for policies after 1988." By the middle of next year, Dr Sinai believes that a major uncertainty facing the US financial markets will be "the politics and economics of the US in 1989 and 1990."

However, over the next few weeks the US credit markets will be taking less notice of the political power plays in Washington than the behaviour of the dollar and attempts to fix the price of oil at around $18 a barrel. On the economic front, the main interest this week will be the release of the October industrial production and retail sales figures, scheduled for Friday morning. The absence of cut rate financing is expected to have led to a drop of around 3.5 per cent in retail sales while industrial production is forecast to have risen by around 0.2 per cent.

William Hall

UK GILTS

Judgment reserved on Chancellor's strategy

THE UK Government bond market can perhaps be congratulated for avoiding the trap of judging Mr Nigel Lawson's autumn statement on its electoral merits.

A week is always said to be a long time in politics and, even if an election is called as early as May, it would be another six months at least before the Chancellor's strategy is judged by the voters.

It was only three weeks ago that Mr Lawson's Mansion House speech was accorded such disapproval that sterling fell to a new low against the D-mark. Since then, the pound has made a steady recovery, although nothing has fundamentally changed.

Two factors entirely beyond the control of the Treasury came to the rescue — the surprise dismissal of Sheikh Yamani and the accord between Japan and the US — but neither should bolster sterling indefinitely.

Oil prices did firm but no one can be sure this will last. Signs suggest that there has been a shift in the priorities of the Organisation of Petroleum Exporting Countries and a serious attempt will now be made to boost prices. But, as is so often the case with this divided cartel, nothing is certain. As for the US/Japan pact, senior British monetary officials said at the time it should have no impact either on sterling or on British interest rate policy.

Those opinion polls showing the Conservatives in the lead also gave a fillip to the pound. And no doubt they provided a more sanguine background to the Chancellor's extraordinary frankness last Thursday about missed spending targets. But opinion polls are notoriously fickle. The BBC Newsnight's latest poll on Friday showed Labour still holding on to a marginal lead over the Tories.

The foreign exchange and UK equity markets on Friday happily brushed aside the minor miracles of Mr Lawson's autumn statement forecasts in favour of pinning hopes on the response of voters—always such a predictable bunch—to the Government's sudden outburst of caring capitalism.

The sense of excited anticipation is rather like that of modern children panting for Christmas presents when Father Christmas appears in department store grottos in mid-October. It is a long wait.

There may be something of this in the gilt-edged market as well. But the decline in prices at the end of last week, however modest, was at least a taster of the deep worries about the Chancellor's "trust me" approach.

There is no doubt that the tolerance of the current consumer boom, surging bank lending and extra spending and likely tax cuts next year amount to a high growth strategy and the Treasury's forecast for 3 per cent growth next year is not totally implausible.

What seems clearly optimistic is the forecast of 3¾ per cent retail price inflation late next year. Embodied in this prediction is one of the most notable assumptions of the autumn statement — that the rise in manufacturing unit labour costs will slow to 2½ per cent next year. Another key assumption is that sterling stays at current levels, through higher interest rates if needed.

The prediction of a modest £1.5bn current account deficit depends on the expectation that manufacturing industry will respond swiftly to demand.

Much of this uncertainty is probably adequately provided for in current long gilt yields, and if sterling continues to be buoyed by political factors, the gilt market may be able to make some headway. But predictions of a £10bn public sector borrowing requirement next year by several City securities houses will keep the lid on any outright enthusiasm for gilts.

Janet Bush

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	105¾	+0¼	11.06
Alcoa Intl 7½ 91	[illegible]	[illegible]	[illegible]	[illegible]
Alcan Australia 9½ 89	[illegible]	[illegible]	[illegible]	[illegible]
Amer Saving 12 88	[illegible]	[illegible]	[illegible]	[illegible]
Amer Savings 12 89	[illegible]	[illegible]	[illegible]	[illegible]
Asian Dev Bk 11¾ 93	[illegible]	[illegible]	[illegible]	[illegible]
Australia 9¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Australia 11¾ 95	[illegible]	[illegible]	[illegible]	[illegible]
Australia 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Austria 15 89	[illegible]	[illegible]	[illegible]	[illegible]
Avon Fin 10¼ 92	[illegible]	[illegible]	[illegible]	[illegible]
Bk Nova Scotia 13¾ 87	[illegible]	[illegible]	[illegible]	[illegible]
Bank of Tokyo 12¼ 92	[illegible]	[illegible]	[illegible]	[illegible]
Bank of Tokyo 13¾ 87	[illegible]	[illegible]	[illegible]	[illegible]
Bank of Tokyo 13¼ 89	[illegible]	[illegible]	[illegible]	[illegible]
BMW O/S Fin 10¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
BP Capital 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Br Col Hydro 12½ 14	[illegible]	[illegible]	[illegible]	[illegible]
Br Col Hydro 12¼ 13	[illegible]	[illegible]	[illegible]	[illegible]
Br Col Hydro 13⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
British Pet 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Caisse Nat En 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Canada 10¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
CBS Inc 11⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]
Centrust S & L 10	1.2bn	[illegible]	[illegible]	[illegible]
Chesebrough 13 93	[illegible]	[illegible]	[illegible]	[illegible]
Citicorp 10 96	[illegible]	[illegible]	[illegible]	[illegible]
Citicorp 11⅜ 92	[illegible]	[illegible]	[illegible]	[illegible]
Citicorp 11¾ 97	[illegible]	[illegible]	[illegible]	[illegible]
Citicorp O/S 10⅜ 90	[illegible]	[illegible]	[illegible]	[illegible]
Citicorp O/S 11⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]
CNCA 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Coastal Intl 12¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
Coca-Cola 11¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
Cr de France 12¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
Comfinancial Grp 11¾ 93	[illegible]	[illegible]	[illegible]	[illegible]
Creditanstalt 13¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Daiichi Kangyo 12¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 11⅜ 90	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 12⅜ 92	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 12⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 13 91	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 13 92	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 13½ 90	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 14 91	[illegible]	[illegible]	[illegible]	[illegible]
Digital Equip 11⅜ 89	[illegible]	[illegible]	[illegible]	[illegible]
Dutch St Mines 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Exportfinans 11⅜ 91	[illegible]	[illegible]	[illegible]	[illegible]
Exportfinans 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Elec de France 11¾ 93	[illegible]	[illegible]	[illegible]	[illegible]
Elec de France 12¾ 87	[illegible]	[illegible]	[illegible]	[illegible]
EDC 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
EEC 11 97	[illegible]	[illegible]	[illegible]	[illegible]
EEC 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Elf-Aquitaine 10¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
Ericsson L M 10¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
Euro Inv Bk 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Euro Inv Bk 11¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Euro Inv Bk 12¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
EDC 9½ 89	[illegible]	[illegible]	[illegible]	[illegible]
EDC 10 89	[illegible]	[illegible]	[illegible]	[illegible]
EDC 11⅜ 92	[illegible]	[illegible]	[illegible]	[illegible]
EDC 11¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
EDC 11⅜ 90	[illegible]	[illegible]	[illegible]	[illegible]
EDC 13¼ 87	[illegible]	[illegible]	[illegible]	[illegible]
Fed Dept Store 11 90	[illegible]	[illegible]	[illegible]	[illegible]
Finland 11½ 91	[illegible]	[illegible]	[illegible]	[illegible]
Finland 12¾ 94	[illegible]	[illegible]	[illegible]	[illegible]
Finnish Export 13⅞ 87	[illegible]	[illegible]	[illegible]	[illegible]
Firsted Mich 13⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Florida Fed 12¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
FNMA 11.5 91	[illegible]	[illegible]	[illegible]	[illegible]
Gen Elec Cred 0 96	[illegible]	[illegible]	[illegible]	[illegible]
Gen Elec Cred 9¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Gen Elec Cred 10¼ 90	[illegible]	[illegible]	[illegible]	[illegible]
Gen Elec Cred 11 91	[illegible]	[illegible]	[illegible]	[illegible]
Gen Elec Cred 11¾ 87	[illegible]	[illegible]	[illegible]	[illegible]
Gen Elec Cred 12 94	[illegible]	[illegible]	[illegible]	[illegible]
Gen Foods Cap 11¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
General Mills 8⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]
Gen Motors Acc 12 88	[illegible]	[illegible]	[illegible]	[illegible]
Gen Motors Acc 10 90	[illegible]	[illegible]	[illegible]	[illegible]
Gen Motors Acc 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
GMAC 10 92	[illegible]	[illegible]	[illegible]	[illegible]
GMAC 10 88	[illegible]	[illegible]	[illegible]	[illegible]
GMAC 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
GMAC O/S Fin 15⅝ 87	[illegible]	[illegible]	[illegible]	[illegible]
GTE Finance 12 96	[illegible]	[illegible]	[illegible]	[illegible]
Gulf Oil 10¾ 94	[illegible]	[illegible]	[illegible]	[illegible]
GZB 14 91	[illegible]	[illegible]	[illegible]	[illegible]
Holl Air Fin 12¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Household Fin 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
IBM 9¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
IBM (WTC) 10¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
IBM Credit 11 89	[illegible]	[illegible]	[illegible]	[illegible]
IC Industries 11¾ 87	[illegible]	[illegible]	[illegible]	[illegible]
IC Industries 12 90	[illegible]	[illegible]	[illegible]	[illegible]
Iaco 8 92	[illegible]	[illegible]	[illegible]	[illegible]
Ind Bk Japan 11⅜ 90	[illegible]	[illegible]	[illegible]	[illegible]
Ind Bk Japan 10¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
Ind Bk Japan 10⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]
Ind Bk Japan 11¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
Int-Amer Dev 12¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
Int-Amer Dev 11¾ 94	[illegible]	[illegible]	[illegible]	[illegible]
Int Paper 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Int Stand Elec 0 97	[illegible]	[illegible]	[illegible]	[illegible]
Int Stand Elec 12 86	[illegible]	[illegible]	[illegible]	[illegible]
ITT 11⅛ 89	[illegible]	[illegible]	[illegible]	[illegible]
ITT Credit Corp 10¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Japan Airlines 12¾	[illegible]	[illegible]	[illegible]	[illegible]
Japan Dev Bk 10¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Kellog Co 11½ 90	[illegible]	[illegible]	[illegible]	[illegible]
Kellog Co 11½ 92	[illegible]	[illegible]	[illegible]	[illegible]
Kiewit 10¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Kimberly-Clark 12 94	[illegible]	[illegible]	[illegible]	[illegible]
Korea Fin HK 12¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 11 90	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 11¼ 90	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 12 93	[illegible]	[illegible]	[illegible]	[illegible]
Macy R H 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Marubeni 11¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
McDonald Fin 11⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Merrill Lynch 12¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi Corp 10¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi Corp 12¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi Est 10¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Mitsui Fin Asia 12¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Mitsui Tst Fin 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Mobil Corp 10¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Montreal City 12¾ 94	[illegible]	[illegible]	[illegible]	[illegible]
Morgan Guaranty 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Morgan J P 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Mount Is Fin 13¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Ned Gasunie 11⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]
Ned Gasunie 11¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
N Eng Lt Mtg 11⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]
Newfoundland 13 91	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Cred Bk 11½ 90	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Cred Bk 9⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Tel Tel 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Tel Tel 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Norsk Hydro 8 92	[illegible]	[illegible]	[illegible]	[illegible]
Nova Scotia 11¾ 91	[illegible]	[illegible]	[illegible]	[illegible]
Nova Scotia 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Oester Post 12¾ 88	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 11 88	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Gas & El 12 95	[illegible]	[illegible]	[illegible]	[illegible]
Penney J C 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Penney J C 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Postipankki 11⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]
Post-Och Kred 10¾ 90	[illegible]	[illegible]	[illegible]	[illegible]
Privatbanken 12¾ 96	[illegible]	[illegible]	[illegible]	[illegible]
Prudential Ins 12¾ 87	[illegible]	[illegible]	[illegible]	[illegible]
Pru Rlty Secs 0 99	[illegible]	[illegible]	[illegible]	[illegible]
Pru Rlty Secs 11¾ 92	[illegible]	[illegible]	[illegible]	[illegible]
Pru Rlty Secs 12¾ 96	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Prov 13¾ 94	[illegible]	[illegible]	[illegible]	[illegible]
Queensland Gvt 11¾ 89	[illegible]	[illegible]	[illegible]	[illegible]
RBC 11⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]
Rural Bk Aust 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Sanwa Bank 11⅞ 92	150	112¼	+0⅛	8.81
Sanwa Intl 11⅞ 92	100	115¼	−0⅛	7.88
Saskatchewan 10⅝ 92	100	111⅛	−0⅛	7.96
Saskatchewan 10⅝ 90	125	108⅝	−0⅛	7.50
Saskatchewan 11⅞ 89	100	111⅛	−0⅛	7.44
Saskatchewan 15 92	150	129⅝	−0⅛	8.31
Saskatchewan 15 89	125	118	−0⅛	7.34
Scot Intl Fin 10⅞ 90	50	108⅛	+0⅛	7.95
Sears O/S Fin 0 98	500	35⅛	0	9.34
Sears O/S Fin 11⅞ 93	150	117⅛	−0⅛	8.28
Sears Roebuck 10½ 91	150	106½	0	8.74
Sears Roebuck 11⅜ 91	150	113¾	−0½	7.68
Sec Pacific 10⅞ 88	100	105⅜	−0⅛	6.80
Shearson/Amex 12⅛ 94	100	116⅜	+0⅛	9.10
Shell (Canada) 14⅜ 92	125	114⅛	−0⅛	10.77
Signal Comps 11⅜ 92	125	109⅛	+0⅛	9.38
Standard Oil 10⅞ 89	150	103⅜	−0⅛	8.70
Statoil 12 88	100	107⅛	−0⅛	6.49
Sumitomo F. A. 10⅞ 90	150	109⅛	−0⅛	7.62
Sumitomo Fin 11⅜ 92	150	115⅞	−0⅛	7.97
Sumitomo Fin 12⅝ 91	150	118⅝	+0⅛	7.68
Sumitomo Trust 12½ 92	100	116⅞	0	8.39
Sweden 8⅞ 94	150	101⅛	−0½	7.89
Sweden 11½ 88	200	111⅞	−0⅛	7.08
Sweden 12⅜ 88	200	111⅞	−0⅛	6.93
Swedish Export 7½ 93	100	97⅝	−0⅛	7.97
Swedish Export 11½ 88	100	108⅞	−0½	7.03
Swedish Export 12⅝ 89	100	110⅜	0	8.32
Taiyo Kobe 11⅞ 90	100	110⅜	−0½	8.16
Tenneco Corp 11½ 89	150	105⅜	−0⅛	8.47
Texaco Capital 10½ 90	200	100	+0⅛	10.60
Texaco Capital 11⅛ 95	250	99⅝	+0⅛	11.17
Texaco Capital 13½ 89	200	106⅛	0	10.74
Texas Inst 11⅞ 91	150	108⅝	0	9.48
Tokai Asia 11½ 95	100	117⅝	−0⅛	8.60
Tokai Asia 12⅜ 91	100	113⅜	+0⅞	8.28
Tokyo Elec Pr 13⅛ 89	100	112⅝	+0½	8.09
Toray Inds 11⅛ 92	50	110	−0⅛	8.64
Toronto-Dom 12⅝ 89	50	110	+0⅛	7.95
UBS 12⅜ 91	100	108⅞	+0⅛	9.88
Utd Tech 11½ 92	150	113⅜	0	7.93
Veba 8 93	70	241	0	0.00
West LB 11⅞ 90	100	113½	0	7.89
Westpac 12⅝ 92	100	115⅜	+0⅛	8.75
Weyerhaeuser 11⅞ 90	60	105⅛	+0⅛	9.89
World Bank 11 92	300	114⅞	−0⅛	7.45
World Bank 11⅛ 90	200	113⅜	0	7.13
World Bank 11⅞ 88	200	109⅛	−0½	6.68
World Bank 12 93	200	122⅜	−0⅛	7.80
World Bank 15 88	150	115⅜	−0⅛	6.39
World Bank 16½ 88	100	117⅜	−0⅛	6.26
Yasuda Trust 12⅝ 89	100	111	−0⅛	7.22

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
Allied Irish ⅛ 95	100	100	−0⅛	7⅛
Allied Irish ⅛ Perp	100	98	0	6⅞
Arab Bank Corp ⅛ 96	100	99	0	6⅞
Banco di Roma ⅛ 89	150	100⅛	−0⅛	7⅛
Bnc di Roma ⅛ 92 CU	75	98⅜	−0⅛	7⅛
Bank-America O/S ⅛ 96	400	97⅞	−0⅛	6⅞
Bankers Tr NY ⅛ 94	200	100⅛	−0⅛	6⅞
Bank Montreal ⅛ 94 £	100	100	0	11⅞
BCI 0.15 88	300	100⅛	0	7⅛
Bqe Nat Paris ⅛ 88	400	101⅛	0	5⅞
Bqe Nat Paris ⅛ 95	400	101⅛	−0⅛	6⅞
Barclays O/S ⅛ Perp	600	100⅛	−0⅛	6⅛
Barclays O/S Inv ⅛ 04	250	100⅛	0	5⅞
BBL ⅛ 96	100	100⅛	0	5⅞
BFCE ⅛ 97	400	99⅞	+0⅛	6⅞
BNP 05	300	99⅝	0	5⅞
Belgium ⅛ 04	400	100	−0⅛	7⅛
Belgium B 0.04 2011	250	100⅛	0	6⅞
CCF 97	250	99⅝	−0⅛	5⅞
CEPME ⅛ 96 £	100	100⅛	−0⅛	10⅛
Chase Manhattan ⅛ 00	250	100	−0⅛	6⅞
Chase Manhattan ⅛ 09	400	100	−0⅛	5⅞
Chemical NY ⅛ 99	300	99⅞	0	6⅞
Citicorp O/S ⅛ 91 £	100	99⅝	0	9⅞
Citicorp Bkg ⅛ 97	250	100	0	6⅛
CNT ⅛ 00	300	100⅛	0	7⅞
Commerzbank ⅛ 89	150	100⅛	−0⅛	6
Creditanstalt ⅛ 96	150	100	0	6⅛
Credit Foncier 97	350	100⅛	0	6⅛
Credit Foncier ⅛ 00 £	100	100⅛	0	11⅛
Credit Lyonnais ⅛ 96	300	101½	−0⅛	7⅛
Credit Lyonnais ⅛ 99	250	100⅛	−0⅛	7⅞
Credit Lyonnais ⅛ 00	300	100⅛	−0⅛	6⅞
Credit National ⅛ 96 £	100	100⅛	+0⅛	10⅞
Denmark ⅛ 04	600	100½	0	6⅞
Eldorado Nuke 89	100	100	−0⅛	6⅞
Elec de France ⅛ 99	400	101⅛	+0⅛	8⅞
ENEL ⅛ 93 £	100	100⅛	0	10⅞
Exterior Int ⅛ 96	125	100⅛	0	7⅛
Ferro del Stat ⅛ 88	100	100⅛	0	7⅛
Ferro del Stat 97	420	100	−0⅛	7⅛
Finnpap ⅛ 95	100	100⅛	0	6⅛
First Chicago ⅛ 94	100	99⅞	−0⅛	6⅞
First Chicago ⅛ 97	200	99⅞	−0⅛	6⅞
Ford Motor Cr ⅛ 91	200	100⅛	0	7⅛
Fuji Intl ⅛ 96	200	100⅛	+0⅛	6⅞
GW O/S Fin ⅛ 94	100	99⅝	0	6⅛
Grindlays ⅛ 94	100	100⅛	0	6⅞
Ireland ⅛ 93 £	50	100⅛	−0⅛	10⅞
Ireland ⅛ 94	300	100⅛	0	6⅞
Ireland ⅛ 96 £	100	100	0	10⅞
Ireland ⅛ 97	300	100	0	5⅞
Ireland ⅛ 99	300	100⅛	0	6⅞
Italy ⅛ 94	1bn	100⅛	0	6⅞
Italy 00	500	100⅛	−0⅛	6⅞
Italy ⅛ 05	500	100⅛	−0⅛	5⅞
Lincoln S & L ⅛ 89	100	100	−0⅛	7⅞
Lloyds Bank ⅛ Perp	750	100⅛	−0⅛	7½
Lloyds Euro ⅛ 93	200	100⅛	0	6⅛
Malaysia ⅛ 93	850	99⅞	−0⅛	6⅛
Malaysia ⅛ 05	650	94½	0	6⅞
Malaysia ⅛ 94	600	97⅛	−0⅛	7⅛
Man Hanover ⅛ 97	200	98⅞	0	6
Marine Midland ⅛ 94	125	100⅛	0	6⅞
Marine Midland ⅛ 96	125	100	0	6⅛
Marine Midland ⅛ 09	150	100	0	6⅛
Mellon Bank ⅛ 98	250	100⅛	0	5⅞
Midland Int ⅛ 99	200	100	0	5⅞
Mitsui Fin ⅛ 98	100	100	−0⅛	5⅞
Morgan Grenfell ⅛ 94	50	100⅛	0	6⅞
Mtg Intermed ⅛ 10 £	50	100⅛	+0⅛	10⅞
Nat Bank Canada ⅛ 91	50	100	−0⅛	7
NatWest ⅛ 05	400	100⅛	−0⅛	6⅞
NatWest Fin ⅛ Perp	500	100⅛	0	7⅞
Neste Oy ⅛ 94	100	100	0	6⅞
New Zealand ⅛ 96	250	100⅛	−0⅛	7⅞
New Zealand 2001	350	100⅛	−0⅛	5
NZ Steel Corp ⅛ 92	300	100⅛	0	7⅛
Offshore Min ⅛ 91	150			7⅛
Oestr Land Bank ⅛ 99	100	100⅛	0	5⅞
Portugal ⅛ 92	100	100	−0⅛	6⅛
Quebec Hydro ⅛ Perp	400	99	−0⅛	5⅞
Renfe ⅛ 91	150	100⅛	0	6⅞
Royal Bk Canada ⅛ 05	350	100	−0⅛	5⅞
Sanwa Int Fin ⅛ 92	150	100⅛	0	6⅞
Security Pac ⅛ 97	250	99⅛	0	6⅛
Shawmut Corp ⅛ 97	50	99⅛	0	6⅛
SNCF ⅛ 93 £	75	100⅛	+0⅛	11⅞
Soc Generale ⅛ 97	400	100	−0⅛	6⅛
Soc Generale ⅛ 94	250	100⅛	0	6⅞
Spain ⅛ 97	250	100⅛	0	6⅞
Standard Chart ⅛ 94	200	100⅛	−0⅛	6⅞
Sumitomo Trust ⅛ 94	100	100⅛	0	6⅞
Sweden ⅛ 99	500			6⅞
Sweden 90	700	100⅛	0	6⅛
Taiyo ⅛ 04	100	100⅛	0	7⅞
Thailand ⅛ 05	60	98⅛	0	6⅛
Tokio Asia ⅛ 99	150			7⅞
Toyo Trust Asia ⅛ 93	100	100⅛	0	7⅞
UBAF ⅛ 90	85	99⅛	0	7
Union Bank-Norw ⅛ 99	50	99⅛	−0⅛	5⅞
United Kingdom 92	2.5bn	100⅛	−0⅛	5⅞
Wells Fargo ⅛ 94	150	100⅛	+0⅛	5⅞
Wells Fargo ⅛ 96	50	98⅛	−0⅛	6⅛
Yokohama ⅛ 94	100	100⅛	+0⅛	6⅞
Yorkshire Int ⅛ 94 £	75	100⅛	0	11⅛

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	237½	−2⅛	−1.13
Ajinomoto 5⅛ 96	40	316	−5½	−3.02
Best Denki 5⅞ 97	15	284	−10½	−6.92
Canon 7 97	60	262½	−18	−5.06
CIR Intl 4⅞ 95	85	129	−12½	−1.10
Daiwa Secs 5⅛ 98	60	525½	−28	−3.82
Elektrowatt 5 98	61	149⅛	−4½	−6.46
Fuji Bank 2⅞ 00	100	149⅜	−6⅛	−0.42
Fujitsu 3 99	180	126⅞	−13⅛	−2.25
Intec Inc 3 99	50	183⅛	−8½	−7.05
Kyowa Hakko 6⅛ 97	40	453⅛	−19⅛	−25.20
LASMO 9⅛ 99	44	86½	−0⅛	83.41
Murata Mfg 3½ 00	100	174	−10½	17.54
Ono Pharm 3⅞ 96	60	242	0	−3.41
Secom 3⅛ 99	80	257½	+7⅛	8.75
Sumitomo Corp 2⅞ 98	70	214	−13	−4.54
Sumitomo Tst Bk 2⅞ 01	150	132⅛	−3⅛	3.86
Texaco Capital 11⅞ 94	1bn	105½	+0⅛	48.07
Texaco Capital 11⅛ 94	800	105⅛	+0⅛	48.32
Tsumura Intendo 5⅛ 96	30	145⅛	+1½	−4.79
USAIR Fin 7 98	50	116½	+2⅛	3.18

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bk 7⅛ 94	15	108⅛	+0⅛	5.92
Avon Products 6⅞ 91	25	101⅞	+0⅛	6.38
Denmark 6⅞ 92	20	104⅛	+0⅛	5.77
Dow Chemical 7 94	50	102⅛	−0⅛	6.61
Elec de France 6⅞ 96	20	105	+1	6.02
Eurofima 7⅛ 94	10	105½	+0⅛	6.41
Eurofima 6⅞ 92	10	102⅞	+0⅛	5.96
FNMA 6⅞ 92	50	104⅛	+0⅛	5.90
GMAC 6½ 90	25	102⅛	+0⅛	5.62
Intel 6⅞ 92	12.5	100⅛	+0⅛	6.39
Int-Amer Dev 7⅛ 93	15	106⅛	+0⅛	6.31
ITT 6⅛ 92	20	103½	+0½	5.98
McDonald Corp 6½ 92	25	102½	+0⅛	5.92
New Zealand 7⅛ 90	15	106⅛	+0⅛	5.39
New Zealand 7⅛ 89	15	108½	+0⅛	5.25
Pacific Gas & El 7 94	20	104⅛	+0⅛	6.31
Penney J C 6⅞ 92	25	102⅞	+0⅛	6.09
Procter 6⅞ 92	25	103⅛	+0⅛	5.85
Sallie Mae 6⅞ 92	25	103⅛	+0⅛	5.79
TRW 7 94	15	102⅛	0	6.65
Utd Technology 6⅞ 92	25	102⅞	+0⅛	5.98
World Bank 7 94	20	106⅛	+0⅞	5.98
World Bank 7⅛ 93	20	108½	+0⅛	5.96
World Bank 8 93	20	111⅞	+1	5.91

LUXFR STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bank 6⅞ 97	800	98⅝	−0⅛	7.46
Eurofima 10 94	600	105⅛	+2⅛	9.08
E Coal & Stel 10⅞ 94	1bn	106⅛	−0⅛	9.32
Euro Invest Bk 10½ 94	1bn	111	−2	8.42
World Bank 10⅛ 89	1bn	103½	0	8.45

GUILDER STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 8 89	200	104½	0	5.74
ABN 7⅞ 89	150	105⅛	0	5.78
Amro Bank 7⅞ 89	150	104⅛	−0⅛	5.74
Amro Bank 8 89	200	104⅛	0	5.87
Bk Mees & Hope 8⅞ 89	100	108⅛	0	5.74
Beatrice Foods 8⅞ 89	100	105⅛	−0⅛	5.91
C C Rabo 8 89	150	104⅛	−0⅛	5.88
Denmark 8½ 91	100	108½	−0⅛	6.02
Int Stand Elec 8½ 89	100	104⅞	0	6.11
New Zealand 8⅞ 89	100	105⅜	0	6.00

CANADIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Amex 12⅛ 91	50	103⅛	−0⅛	11.23
Aust Resources 11⅞ 92	50	105⅛	+0⅛	10.17
Bank of Tokyo 10⅞ 92	75	102	0	10.34
Bqe l'Indosuez 14 91	75	113⅛	+0⅛	10.32
Br Col Munic 12⅛ 91	100	109⅛	+0⅛	9.74
Br Col Munic 13½ 91	100	113⅞	−0⅛	9.83
Br Col Tele 12⅛ 89	70	104⅛	+0⅛	11.49
Farm Cred Corp 12⅛ 90	75	105⅞	0	10.33
Kredietbank 12 92	75	105⅛	−0⅛	10.48
Long Term Cred 11⅛ 90	75	104⅛	0	10.13
Montreal City 12⅛ 91	50	107	0	10.19
New Brunswick 12 95	75	109½	+0⅛	10.22
Nova Scotia 11⅞ 95	100	107½	−0⅛	10.22
Quebec Hydro 14 91	75	108⅛	+0⅛	11.88

ECU STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 9½ 92	100	103⅛	−0⅛	8.86
Australia & NZ 10⅛ 91	50	104⅞	−0⅛	9.32
Austria 10⅞ 93	100	111⅛	+0⅛	8.24
BFCE 9⅛ 92	100	107⅛	+0⅛	7.67
Cred Lyonnais 6⅞ 92	175	93⅛	+0⅛	7.34
Cred National 10⅞ 94	60	110⅛	0	8.59
Cred National 11⅛ 91	50	108⅛	−0⅛	8.85
Denmark 10⅛ 91	75	101	+1⅛	10.42
Ebco Intl 10⅞ 89	55	103⅛	0	9.12
EEC 11 93	50	101½	+0½	10.71
EEC 11⅛ 91	60	108⅞	−0½	8.99
EEC 11⅛ 93	70	100⅛	0	11.07
Euro Invest Bk 9⅛ 96	200	104⅛	−1	8.48
Euro Invest Bk 10⅞ 94	130	112⅛	+0⅛	7.84
Euro Invest Bk 10⅞ 89	50	105½	+2⅛	7.80
Euro Invest Bk 10⅞ 94	100	107⅞	−0⅛	9.09
Euro Invest Bk 11⅛ 92	75	110	+0½	8.78
Euro Invest Bk 11⅞ 93	50	106½	+1½	9.82
Genfinance 11 90	70	106⅛	+1⅛	8.90
Giro Vienna 10½ 93	60	110	−0⅛	8.55
GTE Finance 10⅞ 92	50	105	−1⅛	9.62
Ireland 10⅛ 95	50	106⅛	−0⅛	9.06
Italian Govt 10½ 92	600	110½	−0⅛	8.22
Italian Trees 11½ 90	600	109⅛	+0⅛	8.89
Italy 9⅛ 89	200	105⅛	+0⅛	7.02
Kredietbank L 9½ 92	75	102⅛	+0⅛	8.71
Morgan Gty Tst 8½ 90	100	103½	+0⅛	7.40
Nippon Cred Bk 11 91	50	105⅛	−0⅛	9.44
Post Och Kred 10⅞ 92	60	99⅛	−1⅛	11.00
Royal Bk Can 10.5 89	85	103⅛	+0⅛	8.94
SNCI 10⅞ 94	60	107⅛	−2	9.46
Swedish Export 11 89	57	103⅞	−0⅛	9.04
West LB 10⅞ 91	50	102⅛	−2⅛	10.17
World Bank 10½ 88	100	102⅛	−0⅛	8.88

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Comm Bk Aust 12⅞ 90	200	97⅛	+0½	13.76
Nat Aust Bk 12½ 89	40	95	+0⅞	14.99
PIBA 12⅞ 89	50	94⅛	+0⅞	14.99
State Bk NSW 12⅛ 89	40	95⅛	+0½	14.57

STERLING STRAIGHTS	Issued	Price	Chg. on week	Yield
BAT Intl 10⅞ 91	100	98⅛	−0⅛	11.21
Denmark 10⅞ 88	75	99½	+0⅛	10.93
EEC 11⅛ 94	50	100⅛	−0⅛	11.33
Europarat 11⅛ 92	50	99⅛	−0⅛	11.43
Euro Invest Bk 10⅞ 92	50	98⅛	0	11.14
Finland 11⅞ 88	50	100⅛	−0⅛	11.38
Grand Met Fin 10½ 90	50	99½	+0⅛	11.35
ICI 10⅞ 92	75	97½	−0⅛	11.84
Int-Amer Dev 11⅞ 91	60	100⅛	−0⅛	11.28
Int Stand Elec 11⅞ 89	60	98⅞	−0⅛	11.88
Ireland 11⅛ 94	50	95⅛	+0⅞	11.62
New Zealand 10⅞ 89	100	98⅛	0	11.35
SNCF 11⅛ 94	80	99⅛	+0⅛	11.32
World Bank 10⅞ 89	100	99⅛	0	10.98
World Bank 10⅞ 99	50	89⅛	+0⅛	10.85
World Bank 11 94	50	99½	+0⅛	11.09

EQUITY WARRANTS	Expiry date	Price	Chg. on week	Prem.
Casio Computer	6/3/89	56	−2	−91.70
Credit Suisse	31/5/88	98½	+0½	−39.91
IC Industries	15/6/88	56⅞	+5⅛	3.26
International Pirelli	14/8/88	104½	0	−1.15
Pasco Corpn	6/3/91	0		
Prudntl O/S Fndg	15/12/88	310	0	0.00
Renown	24/1/89	23½	−1½	−90.07
SBC Finance	17/9/90	76½	+4	23.23
Siemens Watrn Fin	19/6/92	202½	+5	16.83
Swissair Finance	19/9/89	280	−15	9.89
Swiss Bank Corp	20/12/88	119	+3	−0.63
Swiss Volksbank A	1/12/88	560	+5	5.05
Union Bk Switz A	30/11/89	29	0	18.13

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅛ 91	15/2/88	102	0	8.41
Coca Cola 11⅛ 91	28/11/88	119⅛	−5⅛	8.37
DaiIchi K 6½ 96 B	1/1/96	7½	0	6.38
Du Pont 13⅛ 89	25/8/88	124½	0	8.07
Eksportfinans 13⅛ 89	15/9/87	129⅛	−7⅛	8.02
Holland Air 11⅛ 91	10/6/88	52⅞	+0⅛	9.84
Ind Bk Jpn 12⅞ 91	5/10/89	183	−13⅛	8.85
Mitsbishi Fn 12⅛ 91	8/11/89	153½	−14⅛	8.71
J P Morgan 11⅛ 90	16/8/87	85⅛	−2⅛	8.92
Texaco Cap 12⅞ 92	1/9/87	82⅛	0	11.32
Wlls Frgo A 12⅛ 91	27/12/88	168⅛	−2⅛	8.43
Weyerhar C 11½ 90	15/11/87	88⅛	−4⅛	6.32

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

 Data supplied by Association of International Bond Dealers.

Closing prices on November 7.

This announcement appears as a matter of record only. These Securities have not been registered under the United States Securities Act of 1933 and may not be offered, sold or delivered in the United States or to United States persons as part of the distribution.

A/S EKSPORTFINANS

(Forretningsbankenes Finansierings- og Eksportkredittinstitutt)

$100,000,000

7⅝% Notes due 1993

Goldman Sachs International Corp.

Prudential-Bache Securities International | Banque Indosuez

Banque Bruxelles Lambert S.A. | Bergen Bank A/S

Christiania Bank (UK) Ltd. | Credit Suisse First Boston Limited

Daiwa Europe Limited | Den norske Creditbank

Deutsche Bank Capital Markets Limited | IBJ International Limited

Kleinwort Benson Limited | Merrill Lynch Capital Markets

Morgan Guaranty Ltd | Nomura International Limited

Société Générale | Union Bank of Switzerland (Securities) Limited

S. G. Warburg Securities

September, 1986

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CITICORP

$200,000,000

7¼% Notes due October 16, 1989

Goldman Sachs International Corp.

Citicorp Investment Bank Limited | Daiwa Europe Limited

Sumitomo Finance International

Banca Commerciale Italiana | Banca Manusardi e C.

Bank für Gemeinwirtschaft Aktiengesellschaft | Bank of Montreal Capital Markets Limited

Bank of Tokyo International Limited | Banque Bruxelles Lambert S.A.

Crédit Agricole | Crédit Lyonnais

Crédit du Nord | Genossenschaftliche Zentralbank AG Vienna

IBJ International Limited | Mitsubishi Trust International Limited

Mitsui Finance International Limited | Mitsui Trust International Limited

Nomura International Limited | Prudential-Bache Securities International

Saitama International (Hong Kong) Limited | Takugin International Bank (Europe) S.A.

Tokai International Limited | Toyo Trust International Limited

Yasuda Trust Europe Limited

October, 1986

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The Kingdom of Denmark

$120,000,000

7¼% Bonds due 1996

Goldman Sachs International Corp.

First Chicago Limited | LTCB International Limited

Manufacturers Hanover Limited | Mitsui Trust International Limited

Privatbanken A/S | Copenhagen Handelsbank A/S | Den Danske Bank

October, 1986

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Nippon Telegraph and Telephone Corporation

Can. $200,000,000

9¾% Notes due 1991

Goldman Sachs International Corp.

Daiwa Europe Limited | Sumitomo Trust International Limited

Algemene Bank Nederland N.V. | Bank of Tokyo International Limited

Banque Paribas Capital Markets Limited | Credit Suisse First Boston Limited

Deutsche Bank Capital Markets Limited | DKB International Limited

Generale Bank | IBJ International Limited

Morgan Guaranty Ltd | The Nikko Securities Co., (Europe) Ltd.

Nippon Kangyo Kakumaru (Europe) Limited | Nomura International Limited

Orion Royal Bank Limited | Prudential-Bache Securities International

Salomon Brothers International Limited | Société Générale

Swiss Bank Corporation International Limited | Toronto Dominion International Limited

Union Bank of Switzerland (Securities) Limited | S.G. Warburg Securities

Wood Gundy Inc. | Yamaichi International (Europe) Limited | Yasuda Trust Europe Limited

October, 1986

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

SWISS EQUITY WARRANTS

Novel instruments catch on immediately

BY JOHN WICKS IN ZURICH

A NEW concept has been introduced to the Swiss equity market in the past few days – and has caught on immediately. On October 31, BZ Bank Zürich announced the placing of 100,000 covered warrants exchangable against registered shares of Ciba-Geigy, the Basle chemical company. Within less than a week four similar placements followed and more seemed to be on the way.

In each case, shareholders of the companies in question have provided a pool of shares to be frozen on a blocked account until the warrants are exchanged or expire. These shareholders receive the price of the warrant and the eventual price of the share, as well as earning dividends in the meantime and retaining full voting rights.

The warrants are going primarily to institutional – and foreign – investors, although growing speculative demand will probably soon put many of them in the hands of individuals at home and abroad. Warrant-holders are entitled to exchange them for shares on a one-for-one or 10-for-one basis after a given date and at a pre determined share price. This is higher than present market quotations but will almost certainly lie substantially below the price prevailing when the three-year warrants mature.

Although the idea of covered warrants is by no means unknown elsewhere, the Swiss version is something special. At least initially, it refers specifically to registered shares, which play an important part in the Swiss stock market but whose ownership is carefully limited. Entries into the corresponding share register are watched over jealously by the issuing companies, particularly with a view to restricting or prohibiting voting rights from passing to foreigners.

Such in-built precautions became significant not least during the Second World War and at the time of the massive petro-dollar recycling of the 1970s. Although unregistered shareholders do, of course, still receive dividends, probably no more than about 5 per cent of the overall registered-share volume is currently held by foreigners and other unregistered interests (ie "unwelcome" Swiss shareholders).

The warrents are thus very attractive for foreign investors. Although these will be unable to register any shares purchasable against their warrants, they do have the likelihood of buying shares at a guaranteed price which can be expected to be well below the actual 1989 quotation plus the warrant premium.

According to Mr Martin Ebner, one of the founders of the young and innovative BZ Bank Zürich, the registered share warrant has a number of advantages. He sees it as anticipating structural alterations in the Swiss market – where traded options business is to begin in 1988 – and at the same time helping to popularise equities with such Swiss institutional investors as the hitherto ultra-cautious pension funds.

This reference to Swiss investors underlines the fact that the shares involved in warrant transactions will, for registration considerations, doubtless finish up almost entirely in Swiss portfolios.

Apart from this, Mr Ebner points to the opportunities for "frustrated" investors in London and other foreign centres who now at least have a chance to ride along with the upwardly mobile registered shares for a couple of years. He says this should also stimulate the prices of registered shares, traditionally well below those of bearer shares of the same company and with an unrealistically high yield.

Other banks have also realised the virtues of covered warrants. Swiss Bank Corporation, Crédit Suisse and Bank Vontobel all placed warrants last week, as did BZ Bank Zürich in a second series, this time for Nestlé. Union Bank of Switzerland had indicated that it could be interested.

Mr Georges Streichenberg, a general Manager of Swiss Bank Corporation, points out some possible disadvantages of the covered warrant. The shareholders who deposit their shares for the duration of the warrant, for example, in effect lose their power to dispose over their holding for the period – and run the risk of having to buy it again in poor market conditions at maturity.

Mr Walter Zeller, head of the financial department of Ciba-Geigy, for instance, admits to "certain misgivings." The warrants, he explains, have again raised the old question as to what would occour should a substantial number of registered shares pass to investors unable to be entered into the share register.

The Swiss Bankers' Association is also looking at whether it ought to issue some sort of recommendation to members in respect of the sales of registered shares to interests unable to be entered into share registers. At least some sort of warning is thought to be called for. It is also unclear as to whether the existence of the warrants would limit the freedom of companies to issue their own warrants, as necessary in connection with bond borrowings.

GTE set to thwart takeover bid with share repurchase plan

BY CHARLES HODGSON IN NEW YORK

GTE, the US telecommunications and electrical equipment group, has taken action to thwart a possible unfriendly takeover bid by announcing a buy-back of up to 10m shares.

The repurchase plan, which accounts for 4.7 per cent of the company's stock and could cost $620m, followed "unusual share accumulations in GTE stock on the part of one or more purchasers," according to Mr Theodore Brophy, chairman.

GTE also announced an increase in its quarterly dividend of 10.5 cents to 91.5 cents. The new annual dividend is $3.66 per common share.

Last month the company announced a 12 per cent increase in third quarter net profits to $325m, or $1.45 per share.

Under the stock repurchase scheme GTE will reacquire its shares from time to time on the open market. The company said it planned to resell 5m of its repurchased shares to meet the requirements of its employee stock purchase and savings plans.

Digital Equipment, the US minicomputer maker, has said it planned to buy back up to 5m common shares on the open market between now and June 1988.

The repurchase plan covers about 4 per cent of the company's 120m common shares outstanding.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Hoskyo Corp. ¶‡	100	1991	5	3¾	100	Daiwa Europe	3.750
Credit Agricole ‡	150	1991	5	7¼	100½	Kidder Peabody	7.128
Banca Comm. Italiana ‡	100	1996	5	7½	100⅞	Morgan Stanley Int.	7.285
Society For Savings (a) (b) †‡	100	1991	5	⅛	100	Paribas Capital Mkts.	*
Inspectorate Int. fin ¶‡	75	1993	7	3½	100	SBCI	3.500
Sankyo Aluminium ¶	40	1991	5	(3¾)	100	Daiwa Europe	*
Toyo Aluminium ¶	35	1991	5	(3¾)	100	Yamaichi Int. (Europe)	*
Brierley Inv. Overseas ‡	100	1991	5	8¼	100½	CSFB	8.124
Province of Alberta †‡	500	1993	7	(e)	100	Morgan Stanley	*
Province of Alberta ‡	750	1991	5	7⅜	100⅝	Morgan Stanley	7.222
Citicorp †‡	500	(f)	–	(g)	100	Goldman Sachs	*
Towa Real Estate ¶	40	1991	5	(3¾)	100	Nomura Int.	*
CANADIAN DOLLARS							
Commonwealth Bk. of Aust. ‡	100	1992	6	9½	101⅜	UBS (Secs)	9.182
Montreal Trust Co. ‡	50	1991	5	10	101½	Societe Generale	9.888
C. Itoh & Co. (H.K.) ‡	50	1991	5	10¼	101	New Japan Secs. (Europe)	9.986
AUSTRALIAN DOLLARS							
AmaG Fin. of Aust. ‡	40	1990	4	14¾	101½	Orion Royal Bank	14.233
IBM Australia ‡	50	1989	3	14⅞	101¼	Salomon Brothers	13.838
Landesbank Stuttgart ‡	35	1991	5	14	101¼	Hambros	13.638
D-MARKS							
Settsu Corp. ¶‡	100	1991	5	2¼	100	Dresdner Bank	2.250
Kenwood Corp. ¶‡	100	1993	7	2¾	100	Deutsche Bank	2.750
Marujama Manufac. ¶‡	40	1991	5	2½	100	Commerzbank	2.500
Deutsche Bank Finance §‡	400	1991	5	6	112	Deutsche Bank	3.353
SWISS FRANCS							
Yuasa Funashoku **¶‡	30	1991	–	2⅝	100	B.della Sviz. Italiana	2.625
Tate & Lyle ¶	140	1993	–	(4)	100	Lloyds Bank	*
World Bank ‡	700	2021	–	0	15	Credit Suisse	5.570
World Bank ‡	150	2011	–	5½	99¾	Credit Suisse	5.510
Fuji Seiko **¶‡	25	1991	–	2⅝	100	Handelsbank	2.625
FAI Fin. Services	200max.	2001	–	(5)	*	Soditic	*
L. F. Rothschild ‡	100	1993	–	5⅝	100¼	Citicorp Inv. Bk. (Zur)	5.581
Robert Bosch ‡	300	1991	–	4⅝	99¾	UBS	4.660
Sankyo Aluminium	50	1992	–	(1¼)	100	B.della Sviz. Italiana	*
Small Bus. Fin. Corp. ‡	100	1994	–	4⅝	100¼	SBC	4.587
Tsuzuki Denki Kogyo ¶	80	1991	–	(2⅝)	100	Credit Suisse	*
First City Finance	100	1994	–	(5⅞)	100	Soditic	*
FRENCH FRANCS							
Montedison Finance ‡	500	2001	15	8⅜	100	Banque Indosuez	8.375
GUILDERS							
Commonwealth of Aust.	400	1992	6	6½	*	Amro	*
DANISH KRONER							
Nordic Investment Bk. (c)‡	300	1991	5	8	100	Den Danske Bank	8.000
Nordic Investment Bk. (c)‡	300	1995	9	8	100	Den Danske Bank	8.000
YEN							
Nordic Investment Bk. (c) †‡	8.5bn	1991	5	(d)	100⅝	Mitsubishi Fin. Int'l	*

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ₵ With bond warrants. ‖ Currency-linked. (a) 50m tap. (b) ⅛ over 6m Libor. (c) Tap issues. (d) Reverse FRN linked to 6m Libor. (e) Libor + (f) Perpetual FRN. (g) ⅛ over 3m Libid. Note: Yields are calculated on AIBD basis.

BankAmerica unit sought by consortium

By Alan Friedman in Milan

A CONSORTIUM of 209 banks which are members of the Visa credit card system in Italy has told the Bank of Italy it would like to be considered a potential suitor for Banca d'America e d'Italia, the Italian bank subsidiary of the US BankAmerica group.

Mr Mario Giglio, managing director of Sardinia's small Banca Popolare di Sassari, said at the weekend, however, that he thought the Italian central bank would probably prefer to see a foreign buyer for the BankAmerica subsidiary. The asking price is around L900bn ($640m).

Mr Giglio said he thought the central bank would not wish to see an outflow of this amount from Italy, which would be the case should an Italian institution acquire the BankAmerica unit.

Among the potential buyers of the 98-branch BankAmerica subsidiary are Deutsche Bank, Citicorp, Dresdner Bank Midland Bank, and Banca Commercial Italia.

Outokumpu set for FM 200m loss in year

BY OLLI VIRTANEN IN HELSINKI

OUTOKUMPU, the Finnish mining and metallurgical company, expects to incur a loss of FM 200m ($40m) this year in the wake of the dramatic fall in metal prices. In 1985 Outokumpu produced a profit of FM 329m before appropriations and taxes.

The result for the first eight months of the year shows a loss of FM 100m before appropriations and taxes. Meanwhile consolidated turnover rose by 35 per cent to FM 4.6bn for the period. This is mainly due to acquisition of Metallwerken and Wirsbo Bruk, two Swedish copper refining companies, and Tara Mines of Ireland.

The group turnover for the year is expected to grow by 45 per cent to FM 7.3bn from 1985.

Mr Pertti Voutilainen, Outokumpu's president, says that the company had expected this year to be worse than 1985 but was still surprised by the dramatic fall particularly in the prices of nickel and cobolt.

● Nokia, Finland's largest privately held company, will sell its industrial electronics to the Finnish company Catalyst, which is controlled by Professor Pentti Kouri, an advisory director of First Boston and a member of the board of directors at Nokia.

The deal includes automation systems for forest industry and energy production as well as instrumentation. Annual turnover of these sectors totals FM 200m and they employ some 500 people. The purchase price has not been disclosed.

Hartogen Manila award

BY SAMUEL SENOREN IN MANILA

HARTOGEN ENERGY, the Australian oil and gas explorer, has been awarded a licence by the Philippine Government covering 1.4m hectares offshore in the south of the country, the first such approval granted by the administration of Mrs Corazon Aquino.

The operations will mark the resumption of oil exploration in the Philippines which stopped completely in 1984.

The project, which will cost about US$5m, initially involves drilling of one well in conjunction with local partners which have agreed to take a 50 per cent share of the costs.

The consortium aims to drill in shallow water in the Sentry Bank reef prospect of the Sulu Sea about 500 miles (800 km) south-west of Manila.

● Hartogen is meanwhile to raise A$72.5m (US$46.5m) through a planned placing of a 26.5 per cent stake in the group with Australian Gas Light Company (AGL), the New South Wales utility, Our Financial Staff adds.

Advance at Power Corp.

BY ROBERT GIBBENS IN MONTREAL

POWER CORPORATION of Canada, holding company of Montreal financier Mr Paul Desmarais, and its 70 per cent-owned Power Financial Corporation (PFC) have reported higher earnings for the third quarter and nine months.

Power Corporation's nine-month net earnings were C$97.9m (US$70.5m) or 75 cents a share against C$82.4m or 70 cents a year earlier. Third-quarter earnings were C$31m or 23 cents a share against C$28.6m or 24 cents. These figures exclude special gains of C$77.5m, against C$50.6m, arising from a share issue by a subsidiary.

PFC had nine-months earnings of C$98.4m or C$1.13 a share against C$85.1m or 98 cents, before special gains of C$137m against C$1.7m, also arising from sale of shares in a subsidiary.

Power Financial has been undergoing a restructuring this year. The control of three financial institutions will as a result be held directly by PFC.

UK COMPANY NEWS

Lucy Kellaway examines the bid to break up Imperial Continental Gas

Convincing shareholders to stay in

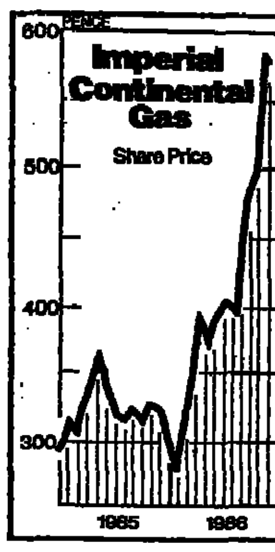
The first time restive shareholders suggested that Imperial Continental Gas Association should be broken up and some of its assets sold, the management, violently opposed to any such scheme, succeeded in convincing the dissenters that their long-term interests were better served by keeping the company in one piece.

However, that was more than 150 years ago, and shareholders in 1826 were a pushover, knowing nothing about bid battles, let alone about leveraged buyouts.

This time the management will have to fight much harder if they are to thwart Gulf Resources, the pint-sized US company which is trying to buy IC Gas with a view to liquidating about half of its assets.

It could be argued that IC Gas is such a natural for a breakup plan, standing on three legs which barely touch at the top, that it is remarkable that no one had thought of it before. There seems little overlap between its Calor Gas subsidiary, its portfolio of Belgian interests, which include minority stakes in Petrofina and three Belgian utilities, and between Century Power and Light, the North Sea oil and gas company, of which IC Gas owns about 60 per cent.

Mr Michael Rendle, deputy chairman of IC Gas



While Burmah Oil, which with its Castrol Oil subsidiary is the nearest stock market equivalent, has been a favourite takeover candidate for more than 10 years, IC Gas has passed unnoticed until about a year ago.

Indeed, with sales of about £500m, IC Gas "may have been the market's largest forgotten stock," says David Gray of James Capel. Until 1980, the City was only dimly aware of the company—information was scarce about its doings, it had a loyal base of steady shareholders, and the little turnover in the stocks was handled by the company's own brokers.

When the oil started to flow from the North Sea fields in which Century held a stake, City analysts turned their attention to IC Gas for the first time. They found less of an energy group than a staid holding company which over the years had shown almost no appetite for new investments and divestitures.

Its Belgian portfolio is a hangover from last century when IC Gas consisted of a string of European utilities most of which were subsequently lost through nationalisation.

The company took on its present form in the 1960s, when Century was established to exploit the new gas finds in the North Sea, and when IC Gas took full control of Calor Gas.

Since the 1960s, Calor, which even then was thought to be a mature business, has continued to grow, breaking into new markets and becoming increasingly efficient. Century acquired stakes in the major producing oil fields Forties and Maureen, and by 1985 was making profits of £31m, while the Belgium investments year after year produced a steady if unexciting stream of cash.

On the whole things have bumped along peacefully for the company with two exceptions. First, it decided to broaden its base, and — against the advice of the City — plunged into the purchase of CompAir, a manufacturer of compressed air equipment. No sooner bought, than CompAir fell into recession, and after a good deal of restructuring was sold last year for less than IC Gas had paid for it.

The second upset has been the fall in the oil price which has reduced to almost nothing Century's likely contribution to profits. However, this will be offset at least in part by the happy effect of lower oil prices on Calor's gas purchase costs.

The CompAir sale left the company with cash and a publicised intention to try again at establishing a fourth leg to the group. Mr Michael Rendle, an ex-managing director of BP, was brought in and is now leading the search, which he says could involve some kind of branded product, and perhaps something with bases in Europe. So far nothing has been found, and IC Gas is not going to rush into anything.

A few months ago shareholders thought this mixed bag of prospects was worth about 380p a share. Enter the Barclay twins, the British investors behind the Gulf bid, and they find they are now being offered 530p.

If IC Gas is to persuade them from accepting such an offer, it must first convince them that it is too low, which might then produce a higher offer neither from Gulf or from elsewhere. But if it wants to keep its independence it must be able to demonstrate the efficacy of the group in its present form.

Mr David Barclay challenges IC Gas on a number of grounds, complaining that:

- CompAir was a "disastrous diversification" which does not bode well for future acquisitions;
- The company missed a "golden opportunity" in not floating off Century early last year;
- Calor has failed to market itself in Europe, where opportunities exist, or to exploit the scope for High Street showrooms;
- The higher profit likely to be produced by Calor this year is a windfall, arising from the effect of low oil prices on gas purchase costs.

As far as Calor itself goes, the record seems easy to defend.

On the management of the group as a whole, the case is less clear. If IC Gas missed the top of the oil cycle, then so did everyone else. However, its decision at the top of the cycle to make a major investment in the T block in the North Sea, just before oil prices fell, was an unfortunate one.

However, as the component parts operate more or less autonomously it is difficult to see what contribution is being made by IC Gas itself.

"The whole point of the holding company is that there is some value added to the centre, but with IC Gas, this seems to be lacking," says Mr Michael Unsworth of Smith New Court Agency.

Mr Michael Rendle would strongly deny any such claim, arguing that the group is well balanced between upstream (exploration and production) and downstream (selling and distributing oil products). Furthermore, he says that growth has been made possible by the Belgian investments which have provided financial muscle, and put up cash against heavy investment outlays.

However, even Mr Rendle reluctantly admits that the time may have come to sell the investment portfolio. "If our shareholders really want, we can do things to bring some of the cash forward," he says. However, the eal task, he says is "to show them that there is more in it for them if they stay in." This may not be easy.

FINANCIAL TIMES STOCK INDICES

	Nov. 7	Nov. 6	Nov. 5	Nov. 4	Nov. 3	Oct. 31	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	82.58	83.10	83.19	83.02	83.19	82.60	94.51	80.39	127.4	49.18
Fixed Interest	89.02	89.15	89.15	89.11	89.15	88.87	97.68	86.55	150.4	50.53
Ordinary	1317.2	1305.9	1296.1	1294.3	1294.1	1285.4	1425.9	1094.3	1425.9	49.4
Gold Mines	300.1	291.5	300.7	281.2	271.3	277.2	357.8	185.7	734.7	43.5
FT-Act All Share	822.25	815.79	813.16	810.98	811.26	807.27	832.39	664.42	832.39	61.92
FT-SE 100	1662.6	1648.5	1644.4	1637.7	1639.2	1632.1	1717.6	1370.1	1717.6	986.9

UK COMPANY NEWS

Virgin aiming to lead its field

BY TERRY POVEY

MR Richard Branson's Virgin Group plans to become the leading UK-based international media and entertainment group according to the prospectus on its offer-for-sale by tender which is published today.

Through the offer Virgin Group and its existing ordinary shareholders expect to raise a total of £55.6m net of expenses. Up to a maximum of 50m shares are on offer, just under 30 per cent of the expanded capital, at the minimum tender price of 120p. Applications, for which the minimum is 200 shares, close at 10 am on November 13.

Of the proceeds of the issue, £28.5m will be used to supply the growing working capital requirements of the group. From the remainder Mr Branson will receive £19.66m, Mr Simon Draper (who is chairman of the music division) obtains £4.45m and Mr Ken Berry (who is managing director of the music division) will get £706,000. Family trusts in which the three are involved will receive a further £3.08m.

Founded in 1971, Virgin has grown rapidly from a company selling records by mail order to one which encompasses record companies, recording studios, music publishing, 86 record shops, film and video distribution, and satellite television broadcasting via The Music Channel in which it has a 15 per cent interest.

Over the four years to January 1986, group sales more than trebled to £119m and pre-tax profits on continuing activities rose almost tenfold to £14.9m. For the year to July 31, the new year end, sales were £188.6m and profits £19.1m.

Of the three operating divisions—music, retail and vision—key in profit terms is music with a turnover in the year to July of £118m, about two thirds of the group total. The division's contribution to the £21.62m group operating profit before central costs was £20.2m in spite of a £1.3m loss on concert merchandising.

Not all of the leisure and entertainment activities associated with Mr Branson, who presently owns 85 per cent of Virgin's ordinary shares, are to be included in the flotation.

First, development and production finance for films have been discontinued.

Second, Virgin Atlantic Airlines plus associated small freight and tour operating businesses and the London night clubs and discotheques have been stripped out from the group and were recently injected into a new private company, Voyager—which is to be owned by Mr Branson, Mr Draper and Mr Berry.

The two-plane airline lost £2.8m in the year to July and wrote off £2.14m of start-up costs in 1984-85. Losses at the companies now constituting Voyager totalled £5.1m in pre-tax to July.

● comment

The City has warmed to Virgin. Fund managers and stockbrokers who freely admit that they would not know one act in the Top Ten from another, are enthusiastic to obtain shares in the tender and as long as the striking price stays around the 150p level, there should be enough momentum left from the publicity campaign to ensure a healthy aftermarket — at least so the advisers must be ardently praying. However, the "former activities" also point up the risks any leisure entrepreneur runs. The stripping out of Voyager, the closure of film finance and the sale of the island improves the quality of earnings radically and will, hopefully, also ease the tax charge a bit. Virgin as floated has as its core a well diversified music rights business with a strong back catalogue from which to issue endless greatest hits albums on compact disc and there has to be lots of upside on the to date dull UK retailing operation.

LCP bid battle starts to hot up

By Nikki Tait

The £153m bid battle for Midlands-based LCP Holdings is starting to hot up. Predator Ward White has disclosed that it is in negotiations with a US motor accessories stores group and LCP is claiming that the bid will overstretch Ward White's balance sheet.

Ward White, whose UK interests range from the Owen Owen department stores to motor accessory retailer Halfords, confirmed yesterday that it is talking to the privately-owned Discount Auto parts chain in Florida. The company has some 65 outlets, annual profits of around $4m, and Ward White is considering paying around $30m cash.

Mr David Rhead, chairman of LCP, is writing to Ward White shareholders, urging them to vote against the bid—and the necessary increase in Ward White paper—at the EGM in ten days' time.

Ward White's gearing, claims LCP, is currently running at around 80 per cent and funding further expansion could overstretch the group.

Mr Rhead accuses Ward White of having no clear plans for LCP's UK based businesses and claims that the managers of its US motor accessories business, Whitlock, are profoundly disturbed" by the bid.

USM float puts value of £21m on TSB (CI)

BY ALICE RAWSTHORN

THE PROSPECTUS is published today for the flotation on the USM of the Trustee Savings Bank (Channel Islands), hitherto a wholly owned subsidiary of the TSB Group. It will have a value of £21m.

The flotation has been structured to encourage account holders of the bank—which operates from nine branches in the Channel Islands—to buy shares. The issue has been heavily advertised on the Islands and 50 per cent of the shares has been set aside for account holders with priority applications.

In the offer the bank will issue 13.36m shares at 70p each, with an additional 1.33m reserved for a one-for-10 loyalty bonus three years hence. Therefore, 49 per cent of the bank's equity wil be in public issue; its parent bank, the TSB Group, will retain the rest. The TSB Group will also keep all the capital raised by the flotation.

The directors forecast pre-tax profits of £5.45m for the current year producing a prospective p/e of 4.9—compared with the original 7.63 for the TSB Group —and a gross prospective yield of 7 per cent.

Channel Islands residents will pay 20 per cent income tax on their dividend income—the notional gross dividend for the last financial year was 4.9p—while UK residents will pay 20 per cent tax in the Channel Islands and will then be taxed fully on the net figure in the UK.

Lazard Brothers (Jersey) is the merchant bank to the issue with Hoare Govett (Channel Islands), Le Masurier James & Chinn and Rowe & Pitman as stockbrokers.

● comment

The decision to treat the TSB (Channel Islands) to a separate flotation to its parent bank may have been purely political, but it has produced an interesting specimen. The bank will be capitalised at £21m on prospective net assets of £31m; profits have risen steadily through the 1980s save for one suspicious leap in 1982-83, which turns out to be the innocuous product of profitable gilts trading; and the bank can claim the dual benefit of a well heeled customer base—more than half the Channel Islanders hold accounts — and incipient interests in commercial and offshore banking, where the profits have only just started to roll in. The issue has been devised primarily to appeal to Channel Islanders, who tend to be partial to things financial and rarely come across opportunities for investment in home grown companies. The Islanders are being tempted by a prospective yield of seven per cent. For mainlanders the gross yield tumbles to 5.6 per cent, but even that is a better bet than the 4.5 per cent currently on offer from the TSB itself.

Sedgwick US disposal

Fred S. James, the North American retail subsidiary of Sedgwick Group, the London-based insurance and reinsurance broker, has sold for £17.6m ($25.1m) its Utah benefit claims handling operation, James Benefits.

James Benefits made a pre-tax profit in 1985 of £630,000. Sedgwick, which made £124m pre-tax profit last year, described it last night as a high-volume, low-profit margin computer intensive business handling medical benefits claims on behalf of large self-insured US institutions.

The buyer is Alta Heath Strategies of Salt Lake City.

Fergabrook £2m loss

Fergabrook Group, the distributor of toys and home improvement, garden and domestic hardware products, saw last time's first half profits of £557,000 slump to a loss of £2.2m in the six months to June 30 1986.

Turnover rose substantially from £7.6m to £31.7m. Losses in the year to December 31 amounted to £1.8m.

Mr Richard King, chairman, acknowledged the group's substantial losses and said that 1986 was proving to be a most difficult year. However, as a result of rationalisation and the programme of disposals, borrowings had been substantially reduced to £5.3m as of October 31 from £11m on May 23 1986.

Mr King added that he was confident that the major problems would be put behind the company during the course of this year and he expected the group to return to profitability in 1987.

Fergabrook paid no tax and losses per 20p ordinary share came to 8.49p (profit 2.13p). An unchanged interim of 1.2p will be paid.

COMPANY NEWS IN BRIEF

HEALTH CARE Services (Hospital and residential homes): Pre-tax profit £311,000 (£205,000) on turnover of £4.64m (£3.47m) for six months to September 30 1986. Earnings per share 1.7p (1p) after tax £109,000 (£80,000). Increased dividend anticipated for the year (0.75p) USM-quoted.

JUST RUBBER (synthetic rubber covered rollers): Interim dividend 0.64p (0.58p). Turnover £1.05m (£871,782) and pre-tax profits £294,281 (£253,686) for half-year ending July 31 1986. Earnings per 10p share 2.51p (2.4p) after tax £105,433 (£103,580). USM-quoted.

A. GOLDBERG (department stores)—Turnover for half year ended September 27, 1986 was £19.18m (£16.18m) and trading profit £382,000 (£392,000) after this time allowing for £168,000 loss for acquired Virgo units. Associate £475,000 (£614,000 then a subsidiary) and pre-tax profit £465,000 (£424,000). All Virgo stores refurbished and integrated into Wryggee division, and showing improvement and trading profitability.

FLOYD OIL PARTICIPATION (oil and gas explorer): Year to June 30 1986, turnover £2.03m (£4.34m). Administration expenses £320,305 (£241,688). Amortisation of exploration expenditure £457,374 (£358,289). Costs written off relating to relinquished acreage, £1.7m. Operating loss, £2.52m (profit £900,000). Interest payable £209,023 (£240,131). Tax credit £161,612 (debit £302,931). Extraordinary income £186,039. Loss per share 13.69p (profit 2.45p).

TR ENERGY (investment management): Gross income £2.04m (£2.34m) and pre-tax deficit of £563,000 (£256,000 profit). Net loss of £424,000 (£240,000 profit) after tax credit of £139,000 (£16,000 charge) to give losses per share of 1.5p (1p earnings).

KEYSTONE INVESTMENT—Revenue year ended September 30 1986 came to £1.22m (£1.11m previous 11 months) before tax £430,000 (£346,000). Investment income £1.57m (£1.25m). Earnings 5.48p (5.32p) per share and final dividend 3.5p for net total of 5.5p (5p) after scrip adjustment. Net asset value at September 30, was 343p (adjusted 237p a year earlier).

F.T. Share Information

The following securities have been added to the Share Information Service.

Group Development Capital Trust (Section: Trusts, Finance, Land).

Security Tag Systems (Electricals).

SHARE STAKES

CHANGES in company share stakes announced over the past week include:

J. W. Spear — A. T. Vernon Investments (a Canadian company), has an interest in 207,000 ordinary (5.13 per cent). It is a private holding company of which Mr A. T. Vernon is sole shareholder. Mr Vernon is a director of Spear.

Udo Holdings — Director M. J. Wright disposed of 25,000 shares on November 3 and 85,000 on November 5. Beneficial holding now 800,000.

TSB Group — The following directors acquired shares: Sir Ian Fraser 10,000; J. P. R. Holt 3,000; Earl of Iddesleigh 4,700.

Kellock Trust — Former directors purchased shares: F. G. Calonder 3,333 ordinary at 185p, 8,333 at 190p and 4,333 convertible preference at 196½p. J. N. Oppenheimer 6,667 ordinary at 185p, 16,667 at 190p, and 8,667 convertible preference at 196½p.

Crystalate Holdings — On October 31 the following directors sold shares: F. P. Deacon 17,750—he now holds 50,100; R. A. Opperman 11,000—he now holds 60,250.

Viewplan in £6.7m agreed merger

Viewplan, the Docklands-based television and broadcasting equipment hiring company, has announced an agreed £6.7m merger with Trilion, which is also in the broadcasting services business.

The offer is three Trilion shares for every four Viewplan, and values the latter at 61.5p per share. There is a partial cash alternative of 56.25p.

On Friday, after news that Viewplan was in merger discussions, its shares leapt 23p to close at 63p.

Trilion joined the USM in July 1985. It is forecasting pre-tax profits of not less than £935,000 (£431,000) in the year to September.

BOARD MEETINGS

TODAY

Interims:—Amersham International, Anglo American Coal, Futura, Grenyte Surface Coatings, King and Shaxson, New Throgmorton Trust (1983).

Finals:—Drayton Consolidated Trust, Lucas Industries.

FUTURE DATES

Interims—	
British Telecom	Dec 11
Bulmer and Lumb	†Nov 28
Cape Industries	Dec 2
Chamberlin and Hill	Dec 1
Hambros	Nov 25
Hampton Trust	Nov 13
Harrisons Malaysian Plants	Nov 24
Moorgate Mercantile	Nov 11
Sketchley	Nov 19
Staveley Industries	Nov 13
TR Natural Resources Inv. Tst.	Dec 1
Thames Television	Nov 18
Volex	Nov 17
Walpac	Nov 14
Finals—	
Australia & New Zealand Bkg.	Nov 17
Beggeridge Brick	Nov 10
Share Drug Stores	Nov 17
Town Centre Securities	Nov 14

†Amended

London & Northern stake

A CONCERT party, compromising for companies, announced that it had built up a 5.54 per cent stake in London & Northern Group, the construction, energy service and health-care company — but added that the concert agreement on longer exists.

The 6.15m shares were acquired by Technology Finance, Tanks, Dumenil Unit Trust Management and Quintex Company, and held through three nominee companies including MIM Nominees.

However, the companies said they have since ceased to be party to an agreement, and hence no longer have a notifiable interest.

Recent speculation has suggested that London & Northern, which recently reported a sharp downturn in interim profits, could face a takeover bid from Mr Peter Earl's Infincorp Earl, possibly in conjunction with MIM.

On Friday London & Northern said that Mr Earl had been in contact with the company in connection with the concert party interest, but refused to elaborate further. Mr Earl was not available for comment.

PENDING DIVIDENDS

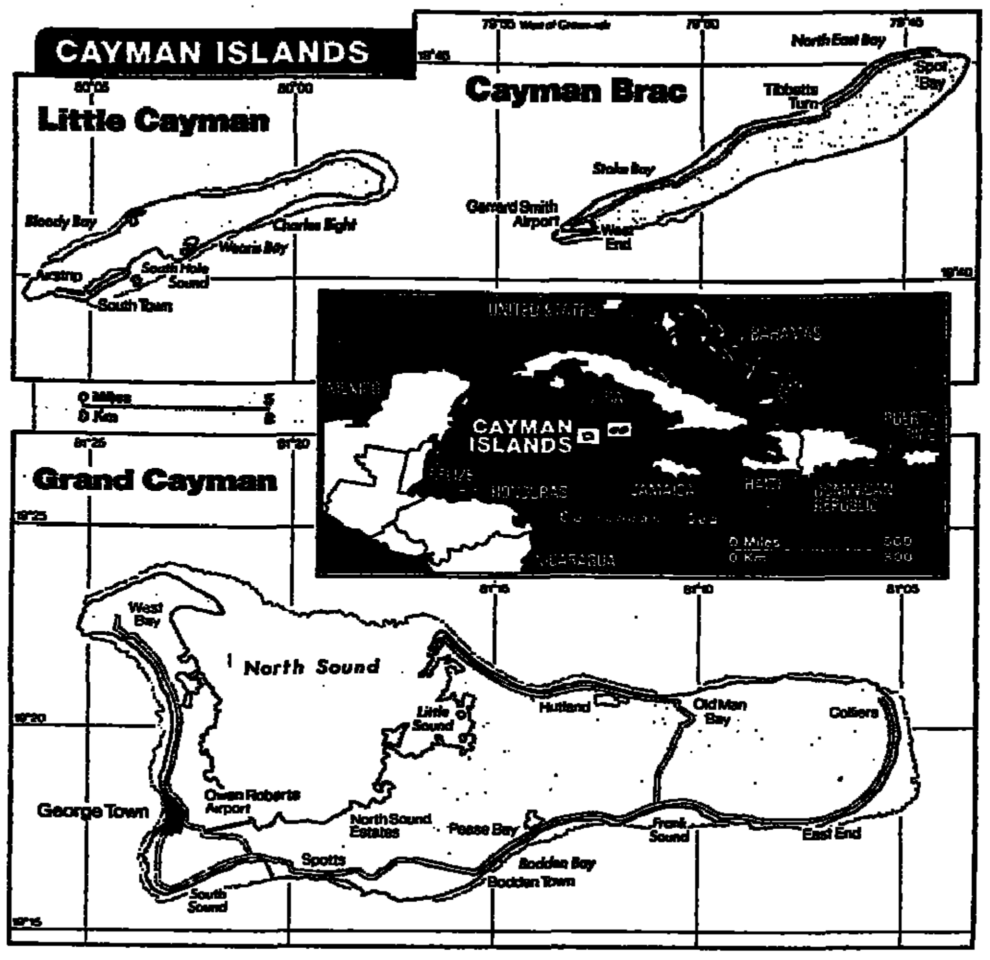
Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*ANZ	Nov 17	Final 16 cts	Heath (C. E.)	Nov 19	Interim 7.0
*Allied Irish Banks	Nov 12	Interim 4.5	*Johnson Matthey	Dec 4	Interim 0.5
*Amersham International	Nov 10	Interim 2.42	*Kwik Save	Nov 26	Final 3.4
Assoc Paper Inds	Dec 11	Final 4.0	*LWT	Nov 13	Final 9.232
*Avana	Nov 19	Interim 5.0	*Land Sec	Nov 26	Interim 2.9
*BET	Nov 20	Interim 4.0	London Intl	Nov 19	Interim 1.5
BOC	Dec 4	Final 5.63	*Lucas Inds	Nov 10	Final due
*BT	Dec 11	Interim 3.0	*MEPC	Nov 26	Final 8.0
*BPB Inds	Nov 27	Interim 3.5	Metal Box	Nov 18	Interim 6.1
*Bass	Dec 4	Final 11.0	*Meyer Intl	Dec 9	Interim 1.95
Bassett	Nov 26	Interim 1.78	Norcros	Dec 10	Interim 2.8
*Boots	Nov 20	Interim 2.5	*Northern Foods	Dec 9	Interim 4.25
Burton	Nov 21	Final 6.3	Pilkington Bros	Dec 12	Interim 5.0
*Cable and Wireless	Nov 20	Interim 3.5	Polly Peck	Dec 2	Final 3.75
Charter Cons	Dec 11	Interim 3.75	*Powell Duffryn	Nov 21	Interim 4.5
Chloride	Dec 10	Interim due	*RHM	Nov 19	Final 3.45
Chrysalis	Dec 5	Final 3.95	RHP	Dec 12	Final 2.6
*Courtaulds	Nov 26	Interim 1.75	Rothmans	Nov 28	Interim due
*Dawson Intl	Nov 27	Interim 1.7	Royal Bank Scotland	Nov 28	Final 6.0
Dee Corp	Dec 5	Interim 2.8	Saatchi and Saatchi	Dec 4	Final 8.71
*De La Rue	Nov 11	Interim 8.25	*Sainsbury (J.)	Nov 11	Interim 1.4
Dobson Park	Dec 9	Final 3.31	*600 Group	Dec 4	Interim 2.34
*EMAP	Nov 25	Interim 1.2	Smith and Nephew	Dec 5	Interim 1.4
Elliott (B.)	Nov 21	Interim 1.0	*Smiths Inds	Nov 12	Interim 4.7
English China Clays	Dec 12	Final 7.0	*Sketchley	Nov 19	Final 3.0
Extel	Nov 21	Interim 2.0	Stakis	Dec 11	Final 0.8
*Fenner (J. H.)	Nov 25	Final 3.0	*Staveley Inds	Nov 13	Interim 5.5
*Ferranti	Nov 28	Interim 0.66	*Storehouse	Nov 13	Interim due
GEC	Dec 3	Interim 1.4	Tate and Lyle	Dec 11	Final 14.5
GEI Intl	Nov 12	Interim 1.94	Trafalgar House	Dec 2	Final 6.1
Granada	Dec 11	Final 4.57	*Unigate	Nov 24	Interim 3.45
Great Portland Estates	Nov 12	Interim 2.0	*Valor	Nov 13	Interim 1.358
Greenall Whitley	Dec 10	Final 2.853	Vaux	Dec 10	Final 7.321
GUS	Dec 12	Interim 7.0	Whessoe	Dec 12	Final 3.0
Greycoat	Dec 12	Interim 0.95	*Whitbread	Nov 19	Interim 2.25
*Hall (M.)	Nov 27	Interim 1.5	Wolverhampton and Dudley Brews	Dec 9	Interim 5.7
Hanson Trust	Dec 5	Final 2.85			
Hazlewood Foods	Dec 19	Interim 4.0			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

FINANCIAL TIMES SURVEY
Monday November 10 1986

Cayman Islands



This British Crown colony has grown wealthy on tourism and financial services. Through a new agreement with the US, it is taking steps to remain a respectable offshore centre

Envy of its neighbours

Survey by David Lennon

TO THE financial world Cayman means an off-shore financial centre and tax haven. To the tourist it means a relaxing tropical island offering wonderful, coral life for the diving enthusiast. For the people of the islands it means, at long last, a prosperous home from which they no longer have to sail in search of a living.

Until 20 years ago times were hard on Grand Cayman and its ancillary islands Cayman Brac and Little Cayman. Employment was scarce, the future looked bleak and the air was thick with mosquitoes.

Today Cayman is a major off-shore financial centre with 18,700 companies, 500 banks and over 320 insurance firms registered. The capital, George Town, can probably claim as many banks, lawyers and telexes per head of population than any city on earth.

This year more than 400,000 tourists will flock to the islands to enjoy the translucent seas and beautiful beaches undisturbed by the mosquitoes, which have been brought under control by a vigorous eradication programme.

Financial services and tourism are the twin pillars of the economy and between them they provide the 20,000 inhabitants with full employment. In spite of the on-rush of affluence, the Caymanians remain easy-going and charming.

A British Crown Colony with a Governor appointed by the Queen, the Cayman has experienced none of the racial tension or political upheavals which have blighted some of the other Caribbean islands. This political stability, plus its proximity to the US, is one of the key reasons for continued economic growth.

The basis of this modern wealth is the absence of taxation and the confidentiality laws, which has attracted the business, commercial and financial community. Originally regarded as a haven for tax dodgers and money launderers, today it is determined to shake off this shady past.

The days when men with suitcases stuffed with cash were welcomed with open arms by the George Town banks are a thing of the past. Anyone trying to deposit more than $10,000 in cash today will be turned away.

The tax authorities in Washington may still regard it as a den of crooks aiding and abetting US tax dodgers, but the islands' self-image is of a repectable off-shore financial centre providing a legitimate service in a world where business and finance is increasingly transnational.

To underline this new image, the authorities point to the Narcotics Agreement of 1984 under which the Cayman agreed to lift the confidentiality regulations in cases concerning people or companies suspected of involvement in drug dealing. Notwithstanding the withdrawal of some funds at that time and a slowdown in the registration of new companies, business is today better than ever.

There is less agreement over the Mutual Assistance Treaty just worked out between the US and, on behalf of Cayman, the UK. It widens the gap in the veil of secrecy opened up by the Narco Agreement to a point which some fear endangers the islands' future as a financial centre.

The Mutual Assistance Treaty is designed to help the US in the investigation, prosecution and suppression of a range of criminal offences, including narcotics trafficking, insider trading, fraud, bribery of foreign officials and the catch-all concept of racketeering.

The islands' officials insist that the main achievement of the treaty is that it puts an end to the subpoena serving and other forms of harassment to which Cayman businessmen were subjected previously. In future all requests for information have to be dealt with through orderly, legal channels.

This aspect is welcomed by George Town's financial and business community, but at the same time some are worried about the failure of the Treaty to protect them against accusations over past transgressions—known or unknown.

They fear that the probing by the US administration will leave them vulnerable to prosecution for having handled the affairs of people whom they believed to be legitimate businessmen and investors, but whom prolonged and costly investigation revealed to be less than upright citizens.

The Opposition in the Legislative Assembly has seized upon the Treaty as an opportunity to try to unseat the Government and force new elections. The main theme of the Opposition's argument is that it will destroy the tax haven economy because it robs investors of the guarantee of confidentiality which is a key attraction.

A petition outlining a series of objections was circulated calling on the British Government to delay ratification of the treaty until the electorate can be given an opportunity to express its views either through a referendum or the holding of a new general election.

This behaviour is being denounced as political chicanery, sedition and rank opportunism by the supporters of the treaty. Their key arguments are that acceptance of the treaty underlines the determination of the Cayman authorities finally to rid the islands of their negative image as a haven for drug funds and a centre for laundering mob money.

Unspoken is the fact that the Cayman had little choice in the matter because in the often used image of a mouse holding discussions with an elephant, the alternative to agreement is unthinkable.

Some amend the imagery to paint the Cayman as a mouse being squeezed between two elephants—the US and the UK. The role of London, which critics say succumbed to pressure from Washington over the drug and mob money haven elements, is seen by these people as a major argument for consideration of independence as a political alternative to the current constitutional arrangement.

But it is doubtful that there would be a majority in the islands in favour of independence from Britain. Indeed, a UN committee which visited Cayman a few years ago found that there was no support for ending its colonial status.

The islands are fiercely pro-British and contributed $500,000 to a fund to aid the Falklands at the time of the Argentine invasion. This British patriotism remains strong in spite of the fact that Cayman is geographically, economically and socially much more closely involved with the US.

The American influence laid over a British basis leads to anomalies such as traffic driving on the left side of the road, while most of the cars are left-hand drive models intended for use in the US where traffic moves on the right.

The school system is British, with the ordinary and advanced level GCE exams but the dominant influence on the local accents is American. The Caymanians do not need a passport to enter the US, but they do for Britain.

Nonetheless, the people of the Islands are pleased by the military and political protection afforded them by being a British dependency. They believe the link lends an air of respectability to Cayman's financial dealings, and it clearly has helped ensure an orderly administration which to a large extent has avoided the corruption and bribe-taking which has arisen in other Caribbean states.

Aware of the fickle nature of its two main sources of revenue, and the fact that outside factors could adversely affect them, the Government is devoting considerable efforts and investment to improving the islands' infrastructure.

This is reflected in the 1986 Budget, which is a record CI$69.9m, compared with CI$60.9m last year. This growth results mainly from the increased spending on infrastructure projects such as the West Bay sewerage scheme, a new water desalination plant, improvements to the airport on Grand Cayman and the construction of a new terminal at Cayman Brac airport. British companies such as Hadsphaltic are major beneficiaries of these projects.

The main items of current expenditure are the salaries and the running costs of the Administration. One example of the determination of the Government to ensure that the population derives long-term benefits from the dramatic economic improvement over two decades is the spending of CI$7.3m on education.

Because the islands have to import virtually all consumer goods, the largest single source of revenue, some CI$22.5m, comes from the hefty customs duties which are to a large extent responsible for the cost of living being some 20 per cent higher than in the US.

The registration and annual fees paid by the companies, banks and insurance concerns utilising the Cayman as an off-shore financial centre are providing CI$13.2m this year. The tourist tax on hotel bills plus the airport departure tax will raise a further CI$4m, while just over CI$7m will come from conveyancing and work permit fees.

Prosperity has given the Cayman Islanders one of the highest per capita income levels in the Caribbean, estimated at about CI$5,000. It has also led to a major improvement in educational standards.

But these changes have led to questions such as whether the education is wasted in producing beach boys and chamber maids. Some also query the rapid pace of development and its sometimes adverse effect on family life and the environment.

The fact that the Caymanians are concerned about the sort of issues which trouble affluent societies underlines what a remarkable success story Cayman is, and why it is the envy of many Caribbean neighbours.

KEY FACTS

Three islands, Grand Cayman, Cayman Brac and Little Cayman cover 100 sq miles in the north-west Caribbean 480 miles south of Miami and 180 miles west of Jamaica.

Government: British Crown Colony with Governor appointed by the Queen. Elections are held every four years to a Legislative Assembly which comprises 12 elected and three appointed members. Rule is by the Executive Council of four elected and three appointed members.

Population: 20,000 (approx)

Capital: George Town, Grand Cayman

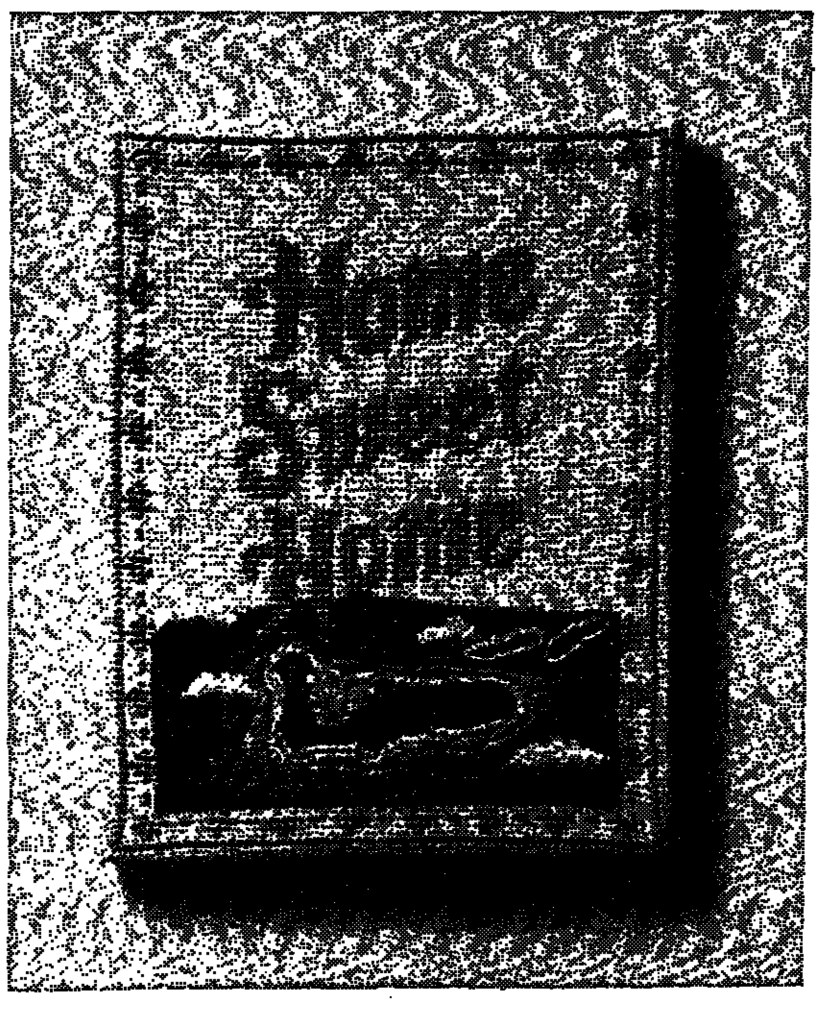
Budget: CI$69.9m (1986).

GNP per capita: CI$5,000 (approx)

Currency: Cayman Dollar

Language: English

Sources of income: Financial services and tourism.



One of the modern banking offices springing up in George Town

Banking

Big operators bring reassurance

A NEW landmark for the Cayman Islands as a banking centre will be reached by the end of this year when the number of banks registered hits 500. This includes 20 of the world's 25 largest banks and is seen locally as a source of reassurance in a time of new challenges.

Originally the business was dominated by the US banks, but over the past two or three years there has been a steady growth from the Far East and Latin America, according to Mr Peter Crook, the Inspector of Banks and Trust Companies. The world's two largest banks, Dai-Ichi Kangy and Fuji received licences this summer.

The fact that the big banks are present is offered as proof that this is a legitimate offshore financial services centre, and not just a money laundering and tax evasion haven. The willingness of the banking fraternity to accept the provisions of the Mutual Assistance Treaty is offered as further evidence of probity.

Even the fact that the once inviolate banking secrecy is now a thing of the past does not fill the banking community with dismay. The tax-free and well-supervised environment, political stability, good communications and a wide range of professional services, plus being in the same time zone as New York are seen as sufficient attractions to keep business buoyant.

"In the early days, when we were eager to attract business, we mistakenly regarded some of the business that came here as clean, when it was not," admits Mr Vassel Johnson, a member of the ruling executive council who was Financial Secretary during the years the Cayman was developing as a financial centre.

"Being new to the business, we thought that every financial centre had a mixture of clean, murky and dirty money. What we learned was that anyone walking around with money in suitcases was not a legitimate businessman," he says, not denying that dubious looking characters with suitcases full of money were once welcomed.

"There has been an evolution in offshore financial operations since the wild west days of the early 1970s," says Mr Peter Tomkins, president of the Banks Association and the Cayman National Bank. "We have shed the 'criminal' business and have minimised the chances of getting off-colour business."

Another official says that it is being made increasingly difficult to launder money on the Cayman. One important measure was the decision by the banks not to accept cash deposits in excess of US$10,000.

"I cannot say it does not happen," the official admits. "But it is far less so than in other places."

Well established as a significant offshore banking centre, the Cayman books some 7 per cent of the Euro-dollar trade. The volume of business has risen steadily and total foreign assets of the registered banks are estimated to be $172bn.

The big benefit to the islands' economy come not from the brass plate operations, but from the 55 banks operating with a physical presence. Their direct expenditure this year is CI$46m (£36.8m). Some CI$18m is paid in salaries to the 900 employees, more than 75 per cent of them Caymanians. The contribution to GDP, both direct and indirect, is considerable.

Some of the Euro-dollar business may have been diverted from the Cayman by the creation in the US of international banking facilities (IBF) which allow US domestic banks to conduct their international business within these facilities instead of from offshore. But bankers on the island say the IBF enterprise has met with only limited success as many of the banks view the IBFs as artificial creations which could be the victims of a change of domestic policies.

It is difficult to accurately assess the impact of the IBFs, especially as any loss may have been offset by other factors such as the relaxation of the Swiss secrecy laws and the flight of capital from South and Latin America.

The fickle nature of the business and its vulnerability to forces outside the control of Cayman leads some people to argue that the future of the Crown colony must lie in tourism rather than financial services.

Their concern is that the break in banking secrecy which began with the 1984 Narcotics Agreement and which has been reinforced by the 1986 treaty could well be followed by further measures which will make even tax avoidance money subject to scrutiny. At that point they believe the offshore business will dwindle and lose much of its significance for Cayman.

However, this is regarded as unduly pessimistic by other bankers who argue that drug and criminal money was never more than a tiny fraction of the business being handled in George Town. That business has already been driven away by the Narcotics Agreement and the treaty, yet business is booming.

They are banking on the Cayman's new "squeaky clean" image to bring in all those who previously were afraid to be associated with any place tainted by drug and racketeering money.

Tourism

Prosperity may hinge on leisure

TOURISM is the Cayman's major source of foreign exchange, bringing in US$70m last year. It has already surpassed the financial sector as the largest single source of employment on the islands and many believe the future prosperity of the Cayman depends ultimately upon tourism.

This means the promotional slogan: "The Cayman is Not For Everyone" used in the past to emphasise tranquility and the no-neon, no-night life and no-gambling reality has to be dropped. The message seen on Miami billboards this summer reads with truthful simplicity: "Cayman Islands Quiet."

This year more than 400,000 tourists will sample the sun, sea, sand and relatively unspoilt charms of the islands regarded by many as a paradise for sun worshippers and divers, who can enjoy some of the finest coral and marine life in the Caribbean.

Being an offshore financial centre it is estimated that 10 per cent of the arrivals registered as tourists come to do business. Many combine this with a holiday, and often bring their spouse or friends to relax on the beach while the financial transactions are being made. A few of these visitors even buy a condominium or get involved in other investments on the islands.

The US is the source of 80 per cent of the islands' tourists, with close to 30 per cent of all arrivals coming equally from Florida and Texas. Another 10 per cent come from Jamaica, the Caribbean island with which Cayman was linked until Jamaican independence.

Despite the historical and continuing political ties as a British Crown colony, the UK is a poor source of tourists. 2.2 per cent of tourists last year. This was due in large part to the £600 to £800 cost of a seven-day holiday.

As a tourist destination, the Cayman developed in a haphazard way. Twenty years ago the annual influx of tourists did not exceed 5,000, mostly divers and a few businessmen. Even while it grew as a financial centre, most investors who saw its tourism potential opted for condominium development, with its quick returns, rather than hotels, which have had a very bad track record for investors in the Caribbean.

> The Cayman must attract half as many tourists again to keep the hotel industry viable

This year the total number of overnight tourists, staying an average of four nights, is expected to reach 175,000, a 17 per increase on 1985. Cruise ship arrivals are expected to remain at, or decline slightly from the record 1985 level of 250,000.

Cruise ship visitors, sometimes disparagingly referred to as "seagull tourists" (they fly in, litter the place and fly out), stay only for a day. Despite the large volume of arrivals, cruise passengers contribute only 5 per cent of the revenue from the tourist industry. Some would like the cruise ships to stay overnight, but the local police are happy to have one less problem to worry about.

The first two major hotels to be built on the island since Holiday Inn opened in 1972 are due to open their doors at the turn of the year. One will be operated by Hyatt Regency and the other, Treasure Island, is expected to be linked to the Best Western reservations system.

They will provide a major boost and challenge to the industry as they add 525 rooms of a higher quality, to the rather limited variety on offer in the existing 1,700 rooms. This will also bring the number of hotel rooms up to the same level as those available in condominiums.

With annual average hotel occupancy at a level of 60 per cent, the competition for new business is going to be fierce. According to Mr Eric Bergstrom, the director of the tourism department, the Cayman must attract 46 per cent more overnight tourists in 1987 to keep the hotel industry viable.

This dramatic increase must be achieved to ensure the hotels continue to operate profitably. A major promotional drive has been launched and there are also high hopes that the Hyatt will attract new business in the form of convention visitors. It is also hoped that with further promotion the season can be extended into the summer.

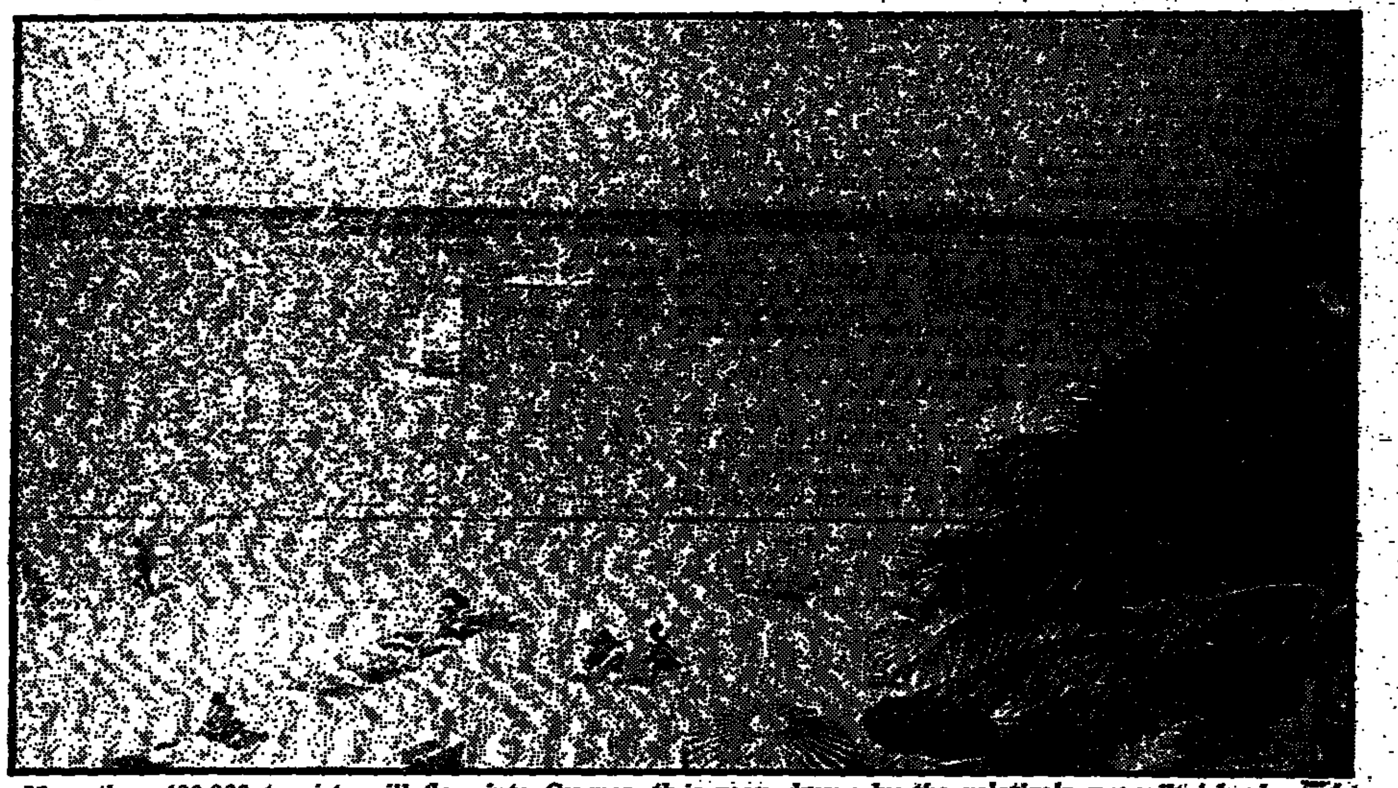
To ensure that there will be enough "lift capacity," industry jargon for seats to carry passengers, Cayman Airways is stepping up its flight frequency by chartering an additional aircraft for the November to April high season.

Not everyone is happy with the way things are going. Some of the islanders wonder if there is any need for additional hotels given that there is full employment and the opening of new hotels will require the import of staff. Some fear that this could be a politically destabilising factor within the islands' tiny population of 20,000.

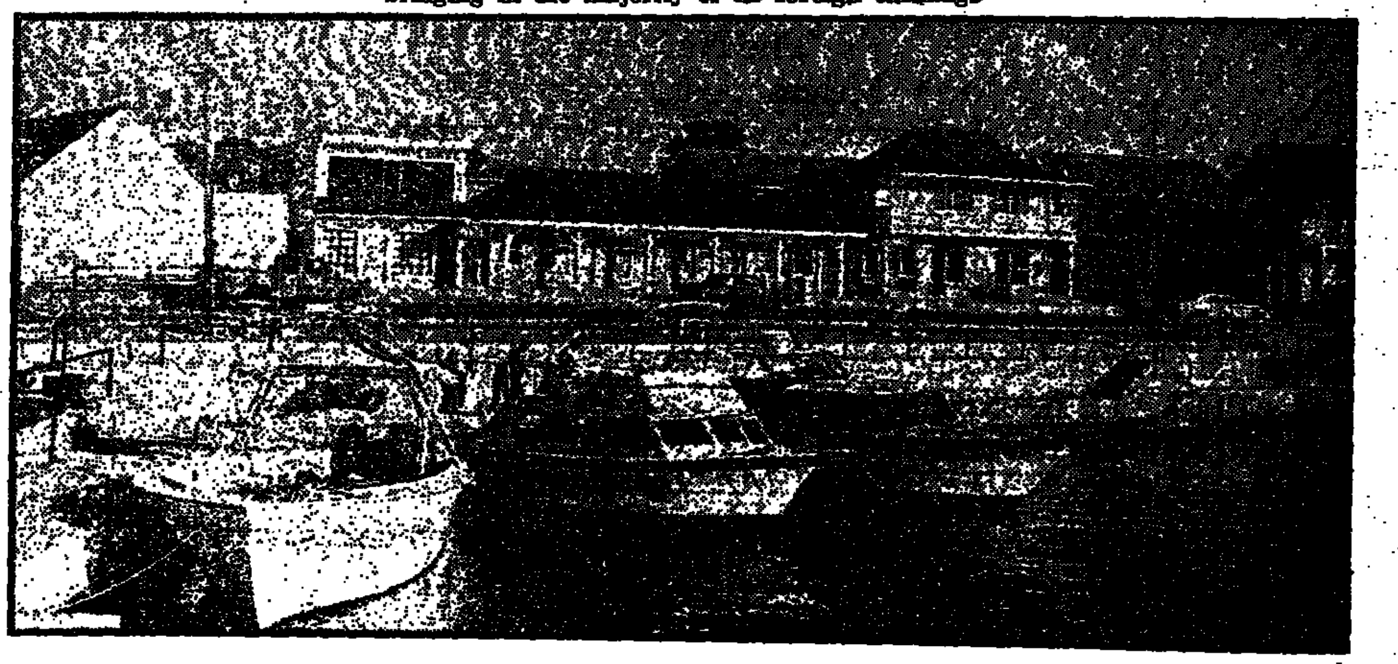
The inevitable poaching of staff by the new hotels is a concern for existing ones.

One veteran hotelier said: "I am not afraid of losing my customers to the Hyatt, after all I am on the beach and they made the mistake of building their hotel away from it on the other side of the increasingly busy West Beach road. What does bother me is that they will steal my staff."

On the other hand, the islands' operators of water sports facilities and of the surprisingly large number of restaurants can hardly wait for the hoped for influx. The real question is, however, whether success will spoil the still friendly and welcoming Cayman Islands.



More than 400,000 tourists will flow into Cayman this year, drawn by the relatively unspoilt islands, and bringing in the majority of its foreign exchange



Sailing to the top

Profile:
Thomas Jefferson

LIKE JUST about everybody who is anybody in the Cayman, Mr Thomas Jefferson was a sailor in his youth. Today while still only in his mid-40s he is the islands' top administrator and the first official member of the ruling Executive Council.

Despite leaving school at the age of 14, Mr Jefferson battled to get an education and after a series of stops and starts—including three and a half years at sea and two years as a military policeman in the US army—he now holds a master's degree in administration.

His genial and easy going personality belies the tough times he experienced. "I had many jobs. When you are hungry you are not so selective, as long as it is legal." He does not regret this experience.

"If you come out at the end achieving something that satisfies you, why change it?"

His determination was recognised early within the administration and by the end of 1979 he had become principal secretary in the Department of Health, Education and Social Security. Just over two years later he moved to the key post of Finance Secretary, "On April 1, All Fools Day," he says with a broad grin.

Life has changed for Mr Jefferson and his people. He looks with some regret on the passing of the trusting relationships which characterised his youth. "If your neighbour spanked you, your parents did not complain because they knew you deserved it." He accepts that the strain development has put on family life has to be accepted as the "bitter that comes with economic progress."

Generally regarded as a Camanian who will influence his country's future development, his ambitions are his own private affair. But one gauge could be a remark he made about not trying for too advanced an exam before being ready: "It is a devil of a thing to put your hat where you can't reach it."

CAYMAN ISLANDS; a reliable and respectable place for business

From the Governor of the Cayman Islands His Excellency G. Peter Lloyd, CMG, CVO.

IT IS APPROPRIATE that the Cayman Islands should be the subject of a Financial Times Survey at this time. One reason is that it is just ten years since the last survey on Cayman, and in that time tremendous progress has been made in almost every segment of the economy.

A more significant reason, I believe, is that with the recent signing of the Mutual Legal Assistance Treaty with the United States, the Cayman Islands is set to begin a new chapter in the remarkable story of its development.

It was a sign of the stature that these three small islands have achieved that the treaty signing took place here, and that Cayman is a party to the first treaty of this type to be concluded between the United Kingdom and the United States.

As I said at that treaty-signing, the 1984 Narcotics Agreement made plain that we were determined to deny shelter to drug traffickers. The treaty is evidence of our determination to fight all serious crime, and it should provide a solid foundation for the future development of our financial industry.

The Caymanian people, and the sophisticated operations which have grown up with their co-operation, share a common interest in having the Islands known and respected as a place resolute in shunning any links with crime. This is the message that can valuably go out at this time.

G. Peter Lloyd,
GOVERNOR.

IN JUST OVER 20 years the Cayman Islands have been transformed from a little-regarded trio of tropical islands into one of the world's leading offshore financial centres. An economy which struggled along on philatelic sales and seamen's remittances has expanded dramatically to become one of the most envied in the Caribbean.

This has been possible because of three basic reasons: A long history of political and social stability; sustained government policies ensuring complete freedom from direct taxation; and the friendly receptiveness of Caymanians to new ideas and people.

On the firm basis of these assets has been built our thriving and respected financial centre, while alongside it has grown the other pillar of our economy, tourism, taking advantage of our tropical climate, clear waters and white beaches. Complementing each other, these industries have attracted large amounts of capital from overseas investors assured by the policies of our government and the attitudes of our people.

This investment has financed large-scale construction—of banking and other office complexes to house the business sector, and of hotels and condominium apartments for use by our steadily increasing flow of visitors. At the same time, the government has been enabled by healthy annual budgets to embark on its own large construction programmes, so that we now have a range of handsome public buildings—Legislative Assembly, Law Courts, Government Administration, Police Headquarters, Broadcasting House—as well as new roads and schools and modern port, airport and hospital facilities.

The capital investment programme, continued by successive governments, has been part of a consistent policy aimed at promoting the greatest good for the greatest number of people. Aspects of this policy have included the provision of adequate social services to ensure the all-round welfare of the community, and the equipping of Caymanians to play their full part in their country's future so that an acceptable balance is maintained between them and residents of other origins.

The pattern of government development has continued through the 1980s, keeping pace with that in the private sector, in which there have been remarkable advances in telecommunications, power generation, hotels, condominiums, office buildings, restaurants, shops and other businesses.

Ten years ago, when the last Cayman Islands survey was published in the *Financial Times*, the Budget estimated revenue at under CI\$12m, there were 216 banks and trust companies licensed, and just over 7,500 companies registered. Our insurance industry had not been launched, and our annual total of air and cruise ship arrivals had topped the 100,000 mark for the first time. The margin by which these figures have been exceeded illustrates the high rate of growth over the ten-year period.

Our Budget for the current year anticipates revenue at CI\$69.9m, and in the first eight months over \$45.5m had been collected. We started the year with a deficit of \$1.1m from 1985 and previous years—a comparatively rare event—but with expenditure estimated at \$67.4m we expect to end the year with a surplus. It is a fact in which Caymanians take pride that our government has never needed grant-in-aid from Britain to balance the annual budget.

For over 40 years we were assisted by British development aid grants, but these ceased in 1975, to be replaced by interest-free loans. The last of these was received in 1980, and while we are grateful for the help that Britain provided in our years of difficulty we are happy and proud to be able to pay our own way without reliance on the British taxpayer. Our credit is good, and among the borrowing sources we use for funding new projects the major one is the Caribbean Development Bank.

Our banking industry continues to grow, and we now have over 490 banks and trust companies licensed, which is more than in any financial centre. As a result of legislation enacted in 1979, Cayman has also become one of the leading centres for the re-insurance industry, and we have over 320 companies licensed, a figure surpassed only by Bermuda. And the successful promotion of our Islands has made them an increasingly popular vacation resort, visited last year by over 400,000 people arriving by air or cruise ship.

Just as investors feel safe in putting their money here, our visitors come—and often come again—because they find that in the Cayman Islands they can relax among friendly people, where crime is minimal and there are no social tensions. Most of our visitors by air

By the Hon Thomas C. Jefferson, OBE, JP, Financial Secretary, First Official Member of Executive Council, and Leader of Government Business in the Legislative Assembly.

get a Caymanian welcome aboard the Boeing 727s of our national airline, Cayman Airways, which provides daily service from Miami and Houston, regular services from Kingston, and charter services from New York, Detroit, Chicago, Atlanta and Tampa.

We expect an even larger increase in our arrivals total next year, when our two biggest hotels will be open. The Hyatt Regency (240 rooms) and the Treasure Island Resort (290 rooms) together represent an investment of over \$50m—which I see as a graphic and significant expression of confidence in our future as a tourist resort.

In every aspect of our development it has been the policy of Government to ensure that, while welcoming investment and expertise from overseas, every chance is given for Caymanians to participate in their country's prosperity. Nearly 900 people are employed in our financial institutions, and I am glad to say that over 75 per cent of them are Caymanians and that they are steadily rising to the highest levels of management and supervision in this key sector of our economy.

These have been termed "the Fortunate Islands" and this is true not least in the fact that we have had little or no unemployment and we have one of the highest standards of living in the Caribbean. And despite the fact that our population has risen rapidly to over 21,000, of whom more than 5,000 have come from over 50 other countries, we have retained an enviable social harmony.

The years when these Islands were remote from the world have been left far behind. Today we have the most modern forms of telecommunications available, with satellite and marine cable links providing the telephone, telex, facsimile and databank services essential for our financial centre operations. With 250 telex sets in use we have the highest per capita provision of this facility in the world.

Nor has the government ignored the need to keep pace technologically. Early this year we installed the first DEC VAXCluster computer system in the Caribbean, supplementing a DEC-PDP 11/70 installed five years ago. About 70 per cent of government departments now have access to computer application systems or office automation.

Such provision shows our realisation of the need to be forward-looking if Cayman is to remain in the forefront of international financial operations—a role reflected in the billions of Eurodollars involved in daily transactions here. We cannot afford to be complacent, for we are well aware of the potential fragility of a sector which depends on continuing confidence in Cayman as a reliable and respectable place to do business, as well as on world conditions beyond our control.

I have great confidence that, with public and private sectors working toward this common purpose, we shall maintain the image that has made possible our remarkable progress.

THE NEW TREATY

THE MUTUAL Legal Assistance Treaty, signed by the governments of the United Kingdom, the Cayman Islands and the United States in July, is a sincere effort by the three governments to overcome the difficulties created by attempts to use our confidentiality rules to hide criminal activity.

Our government has always aimed for a clean operation of our financial centre. This is not only good sense for the long term but it reflects the upstanding character of the Caymanian, whose Christian principles have led to the banning of casinos and all other forms of gambling.

At the same time, we have recognised the essential need of secrecy for the business transacted here, hence the Confidential Relationships (Preservation) Law, enacted in 1976 and reinforced by heavier penalties in 1979. We remain convinced that the legitimate investor has a right to confidentiality when he does business in our Islands, but in recent years we have been forced to recognise that this protection has been used to shield the international movement of illicit funds, especially those resulting from drug trafficking.

Because we shared this concern with the United States we entered into the Narcotics Agreement with them in 1984, and undertook at that time that providing the agreement worked satisfactorily we would negotiate a legal assistance treaty with them. Under the Agreement our Attorney General was required to obtain and provide information in Cayman on persons certified by the U.S. Attorney General to be involved in a narcotics-related investigation. Since the agreement took effect, evidence has been provided in about 60 cases and has assisted federal investigations of drug trafficking involving several hundred million dollars, with the result that a number of notorious drug traffickers have been jailed.

Under the treaty, the enabling legislation for which has recently been approved by the Cayman Islands Legislative Assembly, we have undertaken to provide information to assist investigation of a broader range of serious crime. This is the first such treaty to be concluded between the US and Britain, and it is likely to be a model for others as there is a growing awareness among nations of the need to co-operate in combatting international crime.

Some doubts and fears have been expressed about the effects the treaty may have on business conducted in our financial centre, but I am convinced that the treaty need cause no fears to anyone who does not engage in crime. And it is important to note here that we in Cayman do not recognise tax avoidance as a crime and the treaty specifically excludes tax offences unless they involve the unlawful proceeds of a crime covered by the treaty.

At the time the Narcotics Agreement was signed I said I felt it was a major step forward in ensuring the future of our financial industry. I believe this has been borne out by our experience in operating the Agreement, which has shown that our services and confidentiality rules have been abused, though not to the extent that some publications have claimed.

There were apprehensions, too, about the possible effect of the 1984 agreement upon financial business here, but these proved not to be justified—as illustrated by the fact that our total of licensed banks and trust companies increased by 40 that year. Those of us who carry the responsibility of supervision of our financial industry are content that whatever funds and operations moved away as a result of the agreement were undesirable and their departure is no loss.

In the same way, I expect the treaty to continue the process of setting the right tone for the future development of our financial centre so that reputable businesses are attracted to it. We have been greatly encouraged by the fact that since the treaty was signed we have had applications for banking licences from three large Japanese institutions—two of which are ranked as the world's largest and second largest. This means that 20 of the world's top 25 banks have licences here.

We shall continue to strive to provide an offshore base of untarnished reputation for such prestigious businesses, so that Cayman plays an increasing role in international finance.

The services and opportunities we offer

BANKING

THE CAYMAN ISLANDS have no central bank, and the money supply is regulated by the Cayman Islands Currency Board, a statutory body set up in 1972 when the Cayman dollar (CI\$1=US\$1.20) was first issued. The board maintains its reserves mainly in US dollar-denominated, government-guaranteed securities. At the end of 1985 the board's assets stood at CI\$17.9m, and currency in circulation amounted to CI\$11.3m.

Despite the lack of a central bank the Islands have developed a remarkably sophisticated banking system, which has grown rapidly into one of the foremost offshore banking centres in the world. In a British colony with a stable, progressive government sensitive to the needs of the banking community, banks have been keen to obtain licences to operate here. Other advantages include excellent communications, ready access to the eurocurrency market, a minimum of regulations, confidentiality protected by a law imposing heavy penalties, no taxation of profits, a readily available pool of legal and accountancy expertise, and effective prudential supervision. As a result there are now just under 500 banks and trust companies licensed by the government.

Nearly all licences issued in recent years have been to well-known banking corporations, and of the world's 25 largest banks 20 now have Cayman Islands licences. The largest number are from North America (38 per cent), with Western Europe (33 per cent) a close second, but overall banks from 51 countries are licensed. Total assets of the Cayman Islands operations of these banks reached some US\$175bn at the end of 1985, a figure reflecting the Islands' importance at the centre of the global eurocurrency market.

Two types of licence can be issued, "A" and "B," though there is also a restricted version of the latter which allows the licensee to deal only with certain named customers. In principle the distinction between the two categories is one of function and not quality. An "A" licence bank, of which there are 30, may undertake domestic and offshore business, while a "B" licensee is limited to offshore business.

The Inspector of Banks and Trust Companies, seconded from the Bank of England under the technical assistance programme of the International Monetary Fund, carries out close supervision of the banks in accordance with the "Principles for the supervision of banks' foreign establishments," better known as "The Basle Concordat." Regular meetings are conducted with the banks and internationally accepted standards are required. Banks have come to expect supervision and the close, effective, prudential supervision carried out in the Cayman Islands meets this specification.

COMPANY REGISTRATION

NEARLY 18,000 COMPANIES are registered in the Cayman Islands, for purposes of investment, sales, trading, shipping, insurance, real estate and a wide variety of other aspects of international finance and commerce. To the benefits of operating in the Islands' stable, tax-free environment are added the advantages of an efficient, computerised system of company registration and ample availability of company management expertise. Companies can be incorporated in two or three days.

The Companies Law is based on the United Kingdom's Companies Act, 1948, with amendments to suit the offshore situation. Four types of company may be registered: Companies limited by shares; companies limited by guarantee; unlimited companies; and non-profit associations. They may be either ordinary companies, exempted companies, or foreign companies.

Exempted companies, which form a large majority of those on the register, are licensed to operate offshore. They can enjoy a government guarantee that should direct taxation ever be introduced they will be exempt from it for at least 20 years.

Anonymity is guaranteed by a strict confidentiality law. Nominee shareholders may be registered by exempted and ordinary companies, so that the beneficial shareholders are not recorded or known to the Registrar. Alternate directors may also be appointed, easing the statutory requirement of holding an annual meeting in the Islands.

A recent law amendment allows a company to be formed with only one subscriber. It is also an advantage that an exempted company does not have to file audited annual accounts.

Grand Cayman is well supplied with companies providing company management services, most of them being associated with local legal firms and accountancy practices. They are subject to registration and regulation by the Registrar. Such firms are able to provide registered offices, nominee directors and other similar services.

For a foreign company, which is a company incorporated outside the Islands but carrying on business within the Islands, simplified registration procedures apply.

Enquiries about company formation may be addressed to: The Registrar of Companies, Tower Building, Grand Cayman, BWI. Tel: (809) 94-97999.

INSURANCE

AS A DOMICILE for offshore captive insurance companies, the Cayman Islands are second only to Bermuda in the number of captive insurance companies licensed to transact business.

Our Insurance Law came into effect in June, 1980, when all companies issuing insurance policies, or whose title suggested they were in any way connected with the insurance business, were required to submit an application for a licence. Many submitted applications, though others did not and chose to liquidate or relocate.

We now have 323 active companies submitting annual accounts, and because of the very unsettled state of the international insurance market, and severe lack of available capacity, the number of licence applications had increased dramatically over the past year.

The Islands are now well organised to take advantage of the present interest in captive insurance companies, and many of the biggest corporations in North America have seen the advantages of setting up captives here.

We have 30 licensed Underwriting Managers (including some of the biggest names in insurance broking), and they also come under the framework of the Insurance Law.

We have ample auditing and accounting expertise (including all the "Big 8" accountancy firms) and some innovative legal minds to advise and assist potential licensees.

We have a separate insurance department, with insurance and accounting expertise, and we have room for expansion. A licence application can be processed within four to six weeks.

A copy of our booklet, "Cayman Islands Guide to Offshore Insurance, 1986-87" may be obtained by writing to: The Department of Insurance, Government Administration Building, Grand Cayman, BWI.

The Government of the Cayman Islands

Government Administration Building
Grand Cayman, BWI
Telephone: (809) 94-97900 - Telex: CP 4260 CIGOVT

Representative in the United Kingdom:
Mr. Thomas Russell, CMG, CBE,
17B Curzon Street, Mayfair, London W1Y 7FE.
Telephone: 01-408-2482. Telex: 21427 CIGLON G

Insurance

Curbs may control boom

THE INSURANCE business in the Cayman Islands is booming, with applications for new licences at an all time high. But some fear a slowdown could be imminent, because of new US legislation and agreements concerning offshore tax havens.

Today there are 323 active licensed captive insurance companies registered in Cayman, managing and reinsuring the risks of their parent companies and affiliates. In addition there are 30 underwriting management firms. The cautious estimate by officials is that these companies will generate some US$1.4bn in premiums this year.

There were a record number of applications to register insurance companies in the first six months, 58 compared with 49 for all of 1985. Even in 1982, the previous peak year, the half-year total was only 42.

But this silver cloud has a grey lining in the form of two recent moves by the US Government designed to curb offshore insurance activities. The first blow came with the waiving of US federal excise tax on insurance premiums paid in Barbados, and soon in Bermuda too. The second is the plan to sharply reduce the percentage of US ownership required in an offshore company before its profits become liable to US taxation.

The Barbados and Bermuda treaties allow relief from the federal excise tax of 4 per cent on direct insurance premiums and 1 per cent on reinsurance premiums. This was granted in exchange for the island's co-operation with the US Government in tracking down tax avoidance and evasion by US citizens.

The agreement has been in force in the Barbados since February and has drawn away some new business from the Caymans. The Bermuda treaty, expected to be ratified by the Senate before the end of this year, may have a much more serious impact as it is the largest offshore insurance centre in the Caribbean.

The fear is that this cost saving will adversely affect the Cayman, which has already seen some business going to Barbados. This is particularly disappointing for the insurance community, which experienced a revival of business in late 1984 and 1985 following the slowdown of 1983.

But these worries are overshadowed by fears over the proposed revision by Washington of the regulations governing the taxation of undistributed profits of companies overseas. The idea is that only 25 per cent ownership of the capital of a company need be American to make its profits liable to taxation. This is less than half the existing ownership requirement.

This could have a dramatic impact on offshore insurance operations. "We are in a state of hiatus, not knowing what will be the eventual outcome. But this could be an even more serious problem than the federal excise tax issue," says Mr Don Westmoreland, managing director of Transnational Risk Management and chairman of the Cayman Underwriting Managers' Association.

Mr Anthony Stelling of Samuel Montagu (Cayman) is less pessimistic though clearly wary. "This will slow down affairs until equivocal parts of the new legislation are clarified and new formulas found for constructing offshore companies so that they do not fall into the US tax net," he explains.

Cayman has not seen companies leave so far, according to Mr Peter Bates, the Government's supervisor of insurance. But he admits that some of the larger ones may pull out when the new US offshore insurance taxation proposals come into effect. However, at the moment, "we are still receiving applications," he says, pointing to this year's record figures.

Cayman emerged as a serious insurance and reinsurance centre after June 1980 when the new insurance law became operational and forced a clean out among the 500 companies registered under the Companies Act which had the word insurance in their names. It was often impossible to tell in those days whether a company was engaged in genuine insurance or was helping in tax evasion in other countries, or providing a vehicle for fraud.

The new legislation required the insurance companies to register and comply with certain, far from onerous conditions. Some 300 applied and 250 were approved. This number has now grown to 320 "genuine insurance companies," as Mr Bates describes them.

At the heart of the island's insurance regulatory system is the certificate which states that the insurer has complied with the information in its licence application. Signed by the underwriting manager or auditor, it is lodged with the superintendent and thereafter regulatory interference is minimal.

This to a large extent self-regulatory arrangement, together with the enforcement of strict business secrecy, has helped boost the tax-free island as an attractive place to write off-shore insurance. These are the very elements which have worried developed countries who see it as an opening for tax evasion.

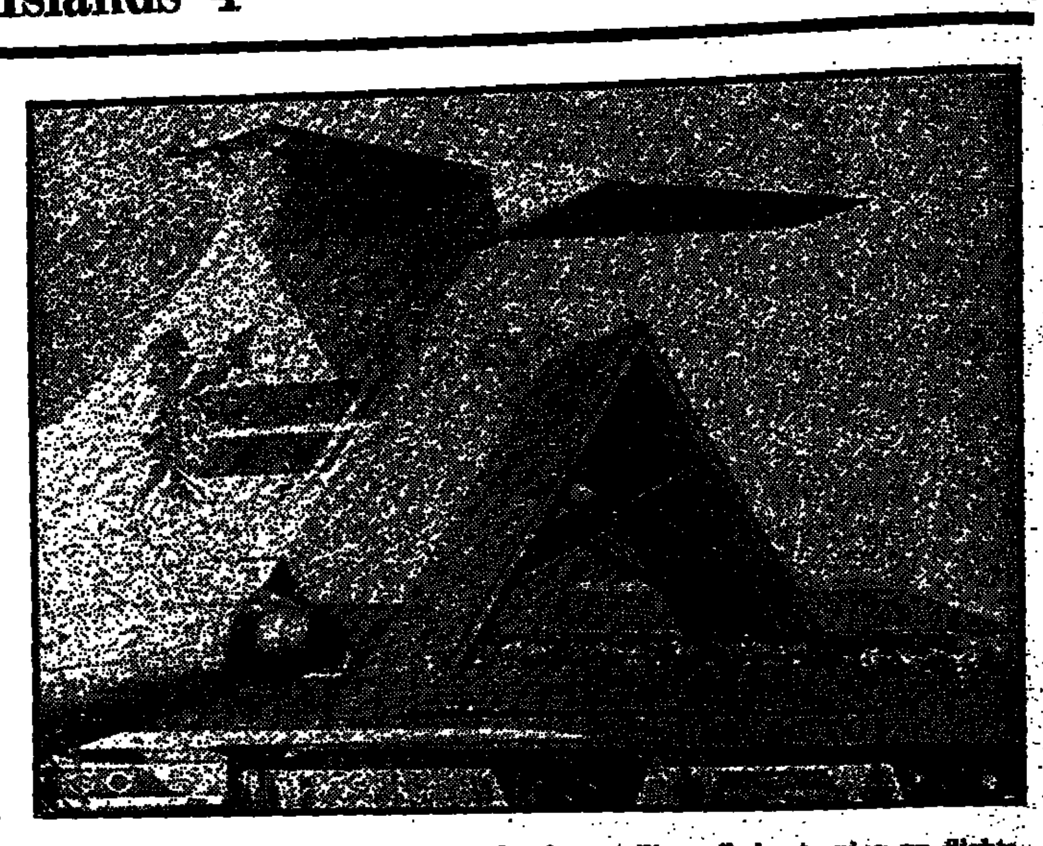
Lawmakers and regulators in countries such as the US are concerned about this because they are aware of the relative ease with which money can be transferred as reinsurance, with scant regard for national boundaries. Because of Cayman's secrecy laws, it is extremely difficult to trace deliberate insurance frauds, except in the case of crimes which sometimes could only be proven if the Cayman was to release the information which it so zealously guards.

Much of the growth in the offshore sector has come from the captive insurance market, with 80 per cent of the companies being from the US. Canada and the UK are the second largest source of business while the remainder comes from the rest of the world.

The Cayman has specialised in association-type captive insurance companies. These are created by like minded individuals or organisations which combine to insure their risks. More than 30 per cent of the companies registered fall into this category. Cayman has established a name for itself in the medical malpractice association field since Harvard Medical School decided to locate its operations on the island some years ago after being turned down by Bermuda.

This type of operation is second in number only to the 45 per cent share of the single parent type.

The direct contribution to the Cayman budget is some C$1.7m in fees, plus a harder-to-quantify amount derived from employment, the construction, purchase and rental of buildings, servicing and ancillary secondary services.



Aerial symmetry: Cayman Airways, far from falling off, is stepping up flights to handle convention business

Companies

US treaty pierces veil of secrecy

THE NUMBER of companies registered on the Cayman Islands has tripled in a decade and in spite of a slow-down in growth over the past couple of years their incorporation and annual fees now provide more than 10 per cent of the budget.

The volume of company business, which is hard to measure because of a lack of reporting requirements, is believed to have increased even more dramatically in this period.

The pace of new company registration has fallen from the peak during 1980-82 when it reached 3,000 annually. In the past couple of years new registrations has averaged about 2,000 per annum. There was a modest turnaround in 1985 and the figures for the first half of this year continued the renewal of growth.

With companies being removed from the register at the rate of some 1,500 a year, usually for failing to pay annual licence fees for two years, the total number of companies has grown slowly in recent years and stood at about 18,700 by the middle of 1986, according to Mr Woodward Terry, the Registrar of Companies.

Companies are a good source of revenue for the islands which will earn CI$7m from incorporation and annual fees this year. They also create employment for lawyers, accountants, management and bank trust companies and clerical staff.

Freedom from taxation, the proximity of the US where the bulk of new business originates and the ease with which companies can be formed in the Cayman are some of the major reasons why so many companies have registered.

Until 1984 the assurance of complete confidentiality could have been added to the list of benefits. That guarantee was weakened by the 1984 Narcotics Agreement which allowed the US authorities access to the records in the Cayman of companies or individuals suspected of involvement in drugs trafficking.

The new Mutual Assistance Treaty has rendered the promise of secrecy almost worthless. The US is now entitled, under certain circumstances, to look into the accounts of a company or person believed involved in any of a wide range of criminal offences.

Though all matters relating directly to taxes have been excluded from the treaty, it is uncertain how long this situation will continue. Having won the right to pierce the veil of secrecy where drugs and criminal activities are concerned, Washington is clearly intent on closing the loopholes which allow its citizens to use tax havens to avoid or evade taxes. (This distinction does not exist on tax-free Cayman).

It is expected that the treaty may produce another slowdown in company registrations while the market absorbs its implications. It is also thought that some business fearful of prying eyes may be withdrawn from the Cayman. But most experts believe these will be temporary adjustments with growth being resumed after a pause, as was the case following the Narcotics Agreement.

New Company Registrations

	Ordinary	Exempt	Total
1976 ...	638	639	1,281
1977 ...	710	840	1,576
1978 ...	836	1,011	1,866
1979 ...	1,020	1,457	2,533
1980 ...	1,159	1,751	2,979
1981 ...	1,161	1,836	3,052
1982 ...	948	1,927	2,930
1983 ...	693	1,549	2,284
1984 ...	679	1,251	1,964
1985 ...	745	1,228	2,017

Source: Cayman Registrar of Companies.

While banking and insurance are now carefully regulated, there is only minimal regulation of the companies on the register, they can operate with nominee shareholders; they do not have to hold an annual meeting; they can alter their articles of association without restriction and they do not have to disclose financial information.

One official admits that companies can be registered too easily, "without any one enquiring into their bona fides. Our act is not as clean as it ought to be because crooks can bring impeccable references when wishing to do business," the official comments frankly.

The large management firms, trust companies and legal offices do, perhaps, provide some safeguard against the establishment of companies intended as vehicles of fraud or set up for money laundering. But smaller operators and newcomers to the field cannot afford to be as choosy in who they accept as their clients.

The new treaty has intensified the worries that they could be implicated in wrongdoings about which they know nothing. Mr Casey Gill, president of the Law Society, explains: "Our concern as lawyers is that under the treaty we may get into an exposed situation for dealing with a criminal, though we did not know he was a criminal."

Mr Paul Harris, a chartered accountant and president of International Management Services, says: "In future we will want to know the source of the funds of the companies we work with." He believes the Cayman financial industry should seek business further afield than the US and also move from the copying to the innovative stage.

"Banking and insurance were copied from Bermuda and the Bahamas. We should be advising mutual funds and the entertainment industry to set up here." He points out that often "the investment in a film comes from one country, it is shot in another, the stars are British, the director American and the royalties come from all over the world." The only sensible solution is an offshore company.

Human dynamo still sparks

Profile: Jim Bodden

"LIFE is a street with two sidewalks and you must walk down one side or the other, there is no neutrality. So I guess I create a lot of enemies," says Mr Jim Bodden, the man who continues to dominate Caymanian politics two years after losing the elections.

"Mr Jim," as he is known to all, stirs passions among both friends and enemies, of which he seems to have equal amounts. You may like him or you may hate him, but no one is indifferent to Cayman's flamboyant human dynamo.

His supporters believe that he is responsible for the islands' massive development in the past decade. His critics blame him for being dictatorial, cutting corners and being too prone to looking after his own. He dismisses his opponents as "idiots and incompetents."

"My people trust me because they know that I make quick decisions and cut through all the bureaucracy. I do not lean towards the civil service at all. They say I was a dictator, but we got things done," he says in explanation of both his personal popularity and the success of his administrations in developing the island.

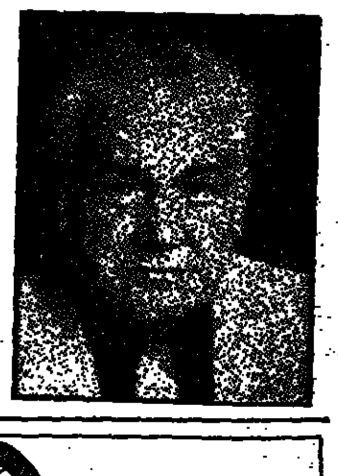
Though there is no prime minister under the Caymanian political structure, there was no doubt that for the eight years between 1976-84 Mr Jim was primus inter pares, most definitely the leader among those formally his equals.

Now at the centre of the major storm over the Mutual Assistance Treaty with the US, which threatens to rent great holes in the commercial secrecy laws, he says: "I was ready to retire; I have a girl friend 20 years younger than me and was learning to relax.

"But then I realised that this Government is ruining the country and that my job is not yet done."

He admits to enjoying being at the helm. "I'm a salesman and love making deals. I have made more money than anyone on the island, and lost fortunes and made them again," he says proudly, while chain-smoking in spite of a minor heart attack just before his recent 56th birthday.

How long will he continue to fight the political battle? "I will not step into the shadows until we have new elections. If my group loses, then I will shut up and retire from politics."



George Town is the capital and business centre of the islands

LONDON RECENT ISSUES

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or –	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
—	F.P.	—	35	27	Australia Inv. Wnts	33	......	—	—	—	—
250	F.P.	—	239	226	Avis Europe	239	+2	R7.6	2.4	4.5	13.3
§170	F.P.	28/11	207	186	BakerHarrisSaund's10p	204	......	R4.0	2.7	2.8	19.1
§38	F.P.	28/11	42	39	✠B.C.E. Hldgs 5p	39	......	R0.0	3.0	3.6	13.0
§125	F.P.	14/11	122	120	✠Berry, Birch 10p	121	......	R2.5	2.2	4.9	13.0
§95	F.P.	21/11	145	117	✠Blenheim Exhibits. 5p	127	+2	u2.1	3.2	2.3	17.3
§100	F.P	21/11	109	100	✠Citygrove 10p	101	......	R2.5	2.7	3.5	14.7
§105	F.P.	16/10	112	100	✠Eve Construction	100	–10	u4.5	3.2	6.3	7.0
§135	F.P.	24/10	166	145	✠Great Southern 10p	162	......	R5.2	2.2	4.5	13.9
185	F.P.	7/11	208	188	✠Interlink Express 5p	206	......	R3.5	3.2	2.4	18.7
§135	F.P.	24/10	280	145	✠Local London Group 5p	275	–5	W5.0	1.8	2.6	31.0
110	F.P.	5/11	141	119	Marlbor'gh Tech Man 5p	136	......	R2.70	3.1	2.8	15.7
135	F.P.	20/11	154	143	Mecca Leisure 10p	149	–1	R4.2	2.2	3.9	16.3
§105	F.P.	24/10	182	133	✠Miller & Santhouse 5p	175	–7	u2.25	2.4	1.8	32.7
§175	F.P.	24/10	79	72	✠Newage Trans 5p	72	......	R3.5	2.5	6.9	8.2
§90	F.P.	24/10	94	88	✠Radamec Group 5p	94	......	R1.28	5.7	1.9	12.9
§95	F.P.	21/11	97	89	✠Rotunda 10p	92	+3	R30.3	2.8	4.6	11.1
§110	F.P.	24/10	108	101	✠Ryman 5p	102	......	L1.5	3.2	2.1	17.1
100	50	14/11	102	79¼	TSB	80	......	—8	—	4.6	9.9
—	F.P.	—	52	52	Triona $5	52	......	1.5c	—	2.0	—
§160	F.P.	5/12	179	163	✠Whitney Mackay 10p	165	......	R4.0	3.0	3.4	13.6
104	F.P.	5/12	89	80	✠Woolons Bet'ware 10p	84	–5	dR3.7	1.5	6.2	15.3

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or –
‖	Nil	17/12	170pm	140pm	Bristol Oil & Min 3% Cnv 2nd Mt Deb 1989	170pm	......
§100	£10	8/1	12½	10	East Worcs. Water 12½% Red Deb 94-96	11	+1
§100	£10	29/1	11	8¾	Essex Water 11¼% Red. Deb. 2002-04	11	+½
¶101.41	£10	26/2	11¼	8	do 8¾% Red. Pf 1993	11	......
§200	F.P.	—	107p	106p	Fed. Housing 9½% Cum. Red. Prf	107p	......
‖	Nil	16/12	9ppm	4ppm	Hartons 7% Cnv. Cum. Red. Prf	4ppm	......
§100	£10	15/5	9½	2	Mid-Sussex Water 11% Red Deb2012-16	5¼	......
—	F.P.	—	100⅞	100	Nationwide 11¾% 26/10/87	100½	......
¶101.87	£10	22/1	11¼	9	Portsmouth Wtr. 8¾% Red. Pf 1996	11	+1
96.645	£25	8/1	24¾	17	Scot. Met. Prop. 10¼% 1stMort.Deb.2016	19½	......
¶102.25	£10	8/1	11¾	9	Tendring Hundred Wtr 8¾% Rd. Pf 1996	11	+1

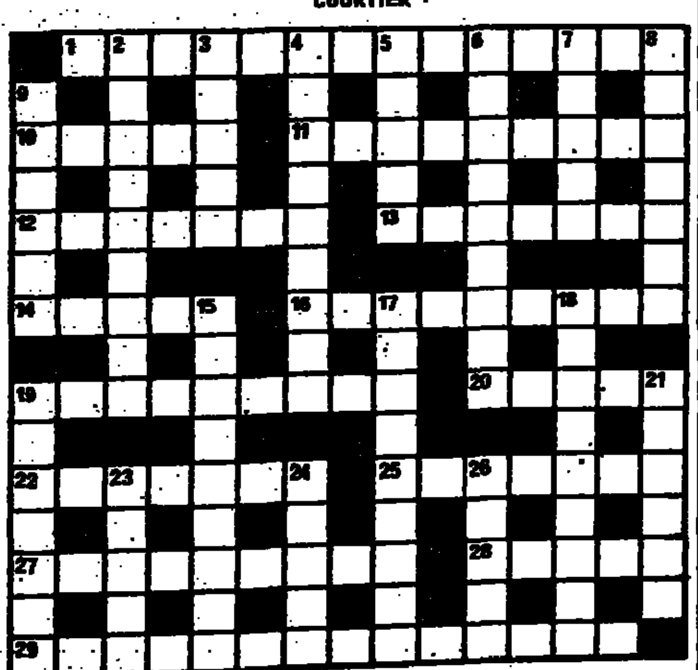
"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or –
137	Nil	19/12	18pm	5pm	Bellway	5pm	–1
330	Nil	16/12	68pm	46pm	Blue Arrow	68pm	+1
70	Nil	—	8pm	2½pm	Brit. Benzol 10p	6pm	+2
86	Nil	12/12	6pm	4pm	Brown Boveri	4pm	......
12	Nil	—	1¼pm	1½pm	Elswick 5p	1½pm	......
285	Nil	15pm	15pm	3pm	FR Group	4pm	......
40	Nil	—	16pm	13pm	Petrocon 12½p	13pm	–1
100	Nil	—	50pm	10pm	Ratcliffe (F.S.) Inds.	15pm	+5
350	Nil	—	67pm	37pm	Redland	67pm	+14
720	Nil	9/1	16pm	2pm	Siebe	3pm	–1

Renunciation date usually last day for dealing free of stamp duty. *a* Annualised dividend. *b* Figures based on prospectus estimates. *d* Dividend rate paid or payable on part of capital, cover based on dividend on full capital. *g* Assumed dividend and yield. *h* Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures *ι* Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. *u* Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▦ Allotment price. ✠ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

FT CROSSWORD PUZZLE No. 6,173

COURTIER



ACROSS

1 A vacancy, having no bias (4-10)
10 Waste away in so returning to perch (5)
11 To make two at least a purse I'll change (9)
12 A master who works on sound foundations (7)
13 A point the French intended, by the sound of it (7)
14 Leave out about a thousand to economise (5)
16 Declaration that is false rots in sea (9)
19 One of twenty usually that come to light (9)
20 Nothing in rich organisation suggests harmonious group (5)
22 Strip off peel (7)
25 Happy he has an itchy finger (7)
27 To that route, then interchange (9)
28 Can Nalgo keep secret a recorded item? (5)
29 Link mail? (14)

DOWN

2 Showing I'd be in furnishing (9)
3 Celebrated journalist after a hefty rise (5)
4 Vital to bring in a worker (9)
5 Put out to make work (5)
6 This ally is totally opposed (9)
7 Send away non-drinkers who go out of textiles (5)
8 Direction small number take to make more palatable (7)
9 Attempts to include a bachelor in the families (6)
15 Carry on through strict amalgamation (9)
17 Agreeable, trite material for consumption (9)
18 Mineral in magazine I follow, with many (9)
19 Burning tart (7)
21 Seldom depend upon the gunner (6)
23 Many back the poet's gloom (5)
24 Dawn backs play with words by us (3-2)
26 It's Ann that is silly (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUST & INSURANCES

Windsor Trust Mngrs Ltd
33 Kingsway, London, WC2B 6SD — 01-405 8331

Growth & Equity Tst	48.9	52.1	+0.1	7.54
Growth Trust	53.4	56.5	+0.3	2.17
Income Trust	55.5	58.9	+0.1	4.90

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY — 01-588 0592

Growth Fund	71.8	74.8		2.80

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield — 0484 602250

Y.G.T.	131.6	140.3	+0.2	3.06

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)
PO Box 93 Cardiff CF1 4NW — 0222 35542

AA Friendly Sy Oct 8		102.8		—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth — 0202 292373

Prop. Ser. 1	199.9	210.5		—
Equity Ser. 1	104.1	109.6	+0.2	—
Prop. Acc. Ser 2	279.1	293.8		—
Equity Ser 2	113.1	119.1	+0.2	—
Selective Acc.	238.6	251.0	+0.2	—
Prop. Ser. 4	220.9	232.6		—
Equity Ser. 4	115.5	121.6	+0.2	—
Fixed Int. Ser. 4	174.3	183.5	-1.1	—
Indexed Inv. Ser. 4	108.7	114.4	+1.1	—
American Ser. 4	262.9	276.8	+0.6	—
High Inc. Ser. 4	289.3	304.6	+3.0	—
Japan Ser 4	226.9	238.9		—
Man. Ser. 4	348.9	367.3		—
Money Ser. 4	197.3	207.7		—
European Ser 4	121.2	127.6	-0.3	—

Pension Funds

Property	358.5	377.4		—
Equity	772.1	812.8	+1.6	—
Selective	252.3	265.6	+0.3	—
Managed	615.9	648.4	+0.3	—
Security	343.1	361.2		—
Fixed Int.	188.9	198.9	-1.1	—
European	194.2	204.5	-0.7	—
American	220.7	232.4	+1.0	—
Japan	253.4	266.7	+3.6	—

Aetna Life Insurance Co Ltd

City of Westminster Assur.—Contd.

Fixed Interest Fund	140.6	148.0		
Far East Fund	199.6	210.2	-1.7	
North American Fund	175.1	184.4	-1.1	
Natural Resources Fund	146.6	154.4	+0.9	—
Pension Managed Fund	380.2	400.3	+1.0	—
Pension Equity Fund	252.7	266.0	+1.0	—
Adventurous Mngd Fd	125.0	131.6	+1.1	—
Balanced Mngd Fd	123.4	129.9	+1.3	—
Conservative Mngd Fd	117.3	123.5	+1.3	—
European Fund	107.7	113.4	-0.3	—
International Fund	118.3	124.6	+0.4	—
S.U.N. Flagship Fd	126.8	133.5	+0.4	—

For other prices please telephone 0908 606101/660066

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH — 0272 290566

Investment Funds

Mixed	133.9	141.0		—
Equity	151.9	159.9	-0.6	—
Property	110.5	116.4		—
Gilt & Fixed Interest	107.6	113.3	-0.3	—
Indexed Securities	97.6	102.8	-0.3	—
Cash	108.3	114.1		—
North American	113.6	119.6	+2.1	—
Far East	125.3	131.9	+0.4	—
International	127.4	134.2	+1.1	—
Special Situations	146.2	153.9	+0.2	—
International Income	144.2	151.8	+0.1	—
American Income	123.4	129.9	+0.1	—
European	148.2	156.0	+0.2	—

Flexible Retirement Plan

Mixed	137.5	144.8	+0.1	—
Equity	146.2	153.9	-0.4	—
Property	115.8	121.9		—
Gilt & Fixed Interest	113.1	119.1	-0.9	—
Indexed Linked	98.9	104.2	-0.4	—
Cash	116.6	122.8		—
North American	120.6	127.0	+0.1	—
Far East	139.0	146.4	+3.3	—
International	134.9	142.1	+0.7	—
Special Situations	164.9	173.6	+1.6	—
European	170.4	179.4	+0.3	—

Executive Investment Pension Plan
Prices on November 5. Next dealings on Wednesday.

Cash Fd.	140.8	148.3	+0.3	—
Mixed Fd.	191.6	201.7	+4.9	—
Fixed Int. Fd.	141.8	149.3	+1.6	—
UK Equity Fd.	223.1	234.9	+8.4	—
Property Fd.	134.7	142.8	+0.4	—
Overseas Fd.	196.0	206.4	+3.1	—
Index Linked Fd.	105.6	111.2	+0.4	—
Stock Ex. Fd.	154.9	163.1	+4.1	—
North Am Fd.	124.7	131.3	+3.8	—
Far East Fd.	143.5	151.1	+1.5	—

[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg
World Fund NAV ... $18.35

World Wide Growth Management
10a, Boulevard Royal, Luxembourg
Worldwide Gth Fd ... $16.54
Inv. Adv.: M. & G. Inv. Mngt., Ltd, London

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg
Advanced Tech ... $16.22
Dynamic Gwth Fd ... $18.10

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268
Zero Bond Fund ... $12.30 12.78

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
Charities Aid Fnds Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3 01-283 6461				
CAFCASH Call Fund	10.59	7.87	11.56	3-mth
CAFCASH 7-day Fund	10.12	7.56	11.09	3-mth
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	10.55	(10.97cArl)	+0.16	3-Mth
The Money Market Trust				
63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fund	10.77	8.05	11.79	6mth
7-day Fnd	10.44	7.80	11.41	6mth
Oppenheimer Money Management Ltd				
66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	10.34	7.75	11.10	6-Mth
7-day Fund	10.05	7.51	10.77	6-Mth
Dollar	4.81	3.59	5.15	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	10.25	7.50	10.66	Qtr
Aitken Hume				
30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	10.25	7.66	11.10	Qtr
MntnclChq £1000-£5000	10.00	7.48	10.90	Mth
Mth. Int. Chq. £5,000+	10.25	7.66	11.18	Mth
Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-283 9111				
High Int. Cheque Acc	11.00	8.25	12.03	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc	10.25	7.66	11.18	Mth
Barclays Prime Account				
PO Box 125, Northampton 0604 252891				
High Int. Cheque	10.00	7.50	10.86	Qtr
Benchmark Trust Ltd				
9 Henrietta Place, W1M 9AG. 01-631 3313				
Cap Chq Deposit Acc	10.25	7.66	11.16	Mth
...				
The Moneycentre, Plymouth PL 1SE 0752 224141				
High Int Chq Acc	10.94	8.20	11.47	Qtr
Wimbledon & South West Finance Co Ltd				
114 Newgate St, London EC1A 7AE. 01-606 9485				
High Int Cheque Acc	11.0	8.22	11.94	Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (Shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	27	NEI	8
Amstrad	15	Nat West Bk	48
BAT	35	P & O Dfd	45
BOC Grp	28	Plessey	16
BSR	11	Polly Peck	16
BTR	26	Racal Elect	15
Babcock	16	RHM	24
Barclays	42	Rank Org Ord	45
Beecham	40	Reed Intnl	25
Blue Circle	55	STC	13
Boots	22	Sears	12
Bowaters	32	TI	40
Brit Aerospace	42	TSB	8
Brit. Telecom	17	Tesco	36
Burton Ord	26	Thorn EMI	42
Cadburys	17	Trust Houses	15
Charter Cons	24	Turner Newall	18
Comm Union	28	Unilever	140
Courtaulds	26	Vickers	36
FNFC	17	Wellcome	17
Gen Accident	75	**Property**	
Gen Electric	15	Brit Land	16
Glaxo	85	Land Secs	30
Grand Met	40	MEPC	32
GUS 'A'	85	Peachey	24
Guardian	75	**Oils**	
GKN	24	Brist. Oil & Min	3½
Hanson Tst.	18	Brit Petroleum	50
Hawker Sidd	42	Burmah Oil	32
ICI	75	Charterhall	4
Jaguar	42	Premier	3½
Ladbroke	32	Shell	65
Legal & Gen	20	Tricentrol	8
Lex Service	32	Ultramar	17
Lloyds Bank	38	**Mines**	
Lucas Inds	46	Cons Gold	62
Marks & Spencer	18	Lonrho	22
Midland Bk	48	Rio T Zinc	62
Morgan Grenfell	26		

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
22Jul	22Jan	Exch. 13¼pc 1987	100¼	16.6	13.20	10.64
10 Aug	10 Feb	Treas 10¼pcCv '87	99⅞	14.7	10.28	11.05
24Aug	24Feb	Exch 2½pc 1987	98⅝	18.7	2.54	8.43
6Oct	6Apr	Exch. 10½pc 1987	99⅞	1.9	10.52	10.99
1 Nov	1 May	Funding 6½pc 85-87	98¼	25.9	6.61	10.10
12Dec	12Jun	Treas. 10pc 1987	99⅝xd	5.11	10.05	11.03
14Jan	14Jly	Treas 3pc 1987	96½	30.6	3.11	8.41
3May	3Nov	Treas. 12pc 1987	101	29.9	11.88	10.89
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	96⅝	19.6	8.02	10.71
10Nov	10May	Exch 10½pc '88	99¼xd	6.10	10.58	11.09
14Dec	14Jne	Treas 9¾pc Cv '88	98⅛xd	7.11	9.94	11.12
1Jan	1Jly	Transport 3pc '78-88	91⅝	27.5	3.27	8.44
25 Apr	25 Oct	Treas. 9½pc '88	97¼	18.9	9.77	11.09
22 Aug	22 Feb	Treas 11½pc 1989	100⅝	16.7	11.44	11.19
18 Oct	18 Apr	Treas 9½pc Cnv 1989	96½	11.9	9.84	11.14
15Nov	15May	Treas 3pc 1989	88xd	9.10	3.41	8.41
14Dec	14Jun	Treas 10½pc 1989	98⅝xd	7.11	10.66	11.22
1Feb	1Aug	Exch.10pc 1989	97⅜	25.6	10.27	11.11
29 Mar	29 Sep	Exch 11pc 1989	99⅝	26.8	11.05	11.16
15 Apr	15 Oct	Treas 5pc 1986-89	88⅜	9.9	5.66	9.55
15 May	15 Nov	Exch 10¼pcCv '89	100⅜xd	9.10	10.22	10.13
15 Jul	15 Jan	Treas 13pc 1990‡‡	104⅝	9.6	12.42	11.16
12 Aug	12 Feb	Exch 11pc 1990‡‡	99⅝	7.7	11.05	11.12
22 Sep	22 Mar	Exch. 12½pc 1990	103⅝	18.8	12.06	11.15
8 Nov	8 May	Treas. 3pc 1990	83¼xd	2.10	3.60	8.56
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	93⅛	9.5	8.85	10.56
25 Apr	25 Oct	Treas. 10pcCv 1990	96⅝	18.9	10.38	11.17
		Exch 2½pc 1990	80⅞xd	16.10	3.11	8.31

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

LEISURE—Continued

PROPERTY—Continued

INVESTMENT TRUSTS—Cont.

FINANCE, LAND—Cont.

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Anglo-Dominion	97	—	—	—	—
—		Anglo Utd	25	14.7	—	—	—
—		♥Colby Res Corp	30	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	£1¼	14.7	Q60c	4.4	10.6
—		♥Ennex Int. Ir10p	25	—	—	—	—
—		Greenwich Res	139	—	—	—	—
Apr	Oct	Hampton Areas 10p	146	23.12	♦1.0	—	1.0
—		♥Highwood Res	244	—	—	—	—
Fb Jan Ag Nv		Homestake Mining $1	£20xd	29.10	Q20c	—	0.7
—		♥McFinley Red Lake	202	—	—	—	—
—		♥Musto Explorations	207	—	—	—	—
—		♥New Sabina Res C$1	40½	—	—	—	—
—		Northgate C$1	322	9/77	—	—	—
Jan.	July	RTZ	693xd	27.10	22.0	2.4	4.5
Jan	July	Do. 9½pcLn '95-2000	£143¼xd	27.10	Q9½%	15.5	f6.8

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ‡ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ■ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	60	......	Fin. 13% 97/02	£96⅝	......
Craig & Rose £1	£14¼	......	Arnotts	270	......
Finlay Pkg. 5p	48	......	CPI Hldgs	99	+1
Holt (Jos) 25p	810	......	Carrol Inds.	128	......
IoM Stm. £1	75	......	Dublin Gas	12	......
			Hall (R. & H.)	88	+2
IRISH			Heiton Hldgs.	27	+1
Fund 11¾% 1986	£96⅞	......	Irish Ropes	113	......
Nat. 9¾% 84/89	£91⅞	......	Unidare	245	......

"Recent Issues" and "Rights" Page 43
(International Edition Page 35)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

DIARY DATES

Finance

TODAY
COMPANY MEETINGS—
Lysander Petroleum, English Speaking Union, 37 Charles Street, W, 11.00
Pacific Sales, Grosvenor House Hotel, Park Lane, W, 12.15
BOARD MEETINGS—
Finals:
Drayton Consd Tst
Lucas Inds
Interims:
Amersham Intnl
Anglo American Coal
Futura
Granyte Surface Coatings
King and Shaxson
New Throgmorton Tst (1983)
DIVIDEND & INTEREST PAYMENTS—
[illegible]

TOMORROW
COMPANY MEETINGS—
Armour Trust, 26 Upper Brook Street, W, 10.00
[illegible], Howard Hotel, Temple Place, WC, 2.00
Macklow (A. and J.), Chamber of Commerce, Edgbaston, Birmingham, 12.00
BOARD MEETINGS—
Finals:
Clyde Blowers
Concentric
[illegible]
Microfilm Reprographics
New Court Tst
Scottish Natl Tst
Tiger Oats
Interims:
Apricot Computers
De La Rue
Goldsmiths
Moorgate Merc
Salisbury (J.)
DIVIDEND & INTEREST PAYMENTS—
Alliance Trust 4½pcDb after 15/5/56 2¼pc
American Trust 6¾pcDb 1982-87 3⅛pc
Bemrose 3p
Edinburgh American Assets Trust 5pcDb (1955 or after) 2½pc
Forth Ports Authority 3½pc Funded Debt 1¾pc
Glasgow 3½pc Ird 1¾pc. Gas 6½pc Ann 3¼pc. Gas 9pc Ann 4½pc. Waterworks Funded Debt 4pc 2pc. Waterworks Funded Debt 3½pc 1¾pc
Hamlyn Milling 5pcDb 1957-97 2½pc
Honda Motor Y6
Investors Capital Trust 4pcDb 2pc
Laidlaw Thompson 1.4p
Logica 1p
Municipal Props 7p
Sommerville (William) 6pcPf 2.1p
Spectra Auto and Eng Prods 0.907p
Sun Life Assurance 10.4p
Tarmac 2.45p
Uniroyal 4¼pcDb 2⅛pc
United Wire 1.75p

WEDNESDAY NOVEMBER 12
COMPANY MEETINGS—
Bristol Stadium, 79 New Cavendish Street, W, 12.00
Goodwin, Great Moreton Hotel, Congleton, Cheshire, 3.00
Home Farm Products 58-64 Campo Lane, Sheffield, 12.00
Murray and Elder, Victoria Hotel, Bridge Street, Bradford, 3.00
Scholes (George), Wylex Works, Wythenshawe, Manchester, 12.00
BOARD MEETINGS—
Finals:
Ericsson (L. M.)
Pennine Resources
Redfearn Natl Glass
Smiths Inds
Swindon Private Hospital
Interims:
Allied Irish Banks
External Inv Tst
Grt Portland Ests
Plessey
DIVIDEND & INTEREST PAYMENTS—
Bancomer SA Sub Fltg Rate Notes 1986-1990 $144.39
Chase Manhattan Fltg Rate Subord Notes 2000 $167.71
Estates and General Invs 0.9p
Export-Import Bank of Korea Fltg Rate Notes 1995 $360.97
GKN 5p
Home Farm Products 2.1p
Italy (Republic of) Flg Rate Notes 1994 $351.39
Marsh and McLennan 47.5 cts
Nordic Intnl Finance Fltg Rate Notes 1991 $178.99
Peninsular and Oriental Steam 7.5p

Wolstenholme Rink 2.75p
Young (H.) 2.4p

THURSDAY NOVEMBER 13
COMPANY MEETINGS—
Cray Electronics, Institute of Directors, Pall Mall, SW, 12.00
Telemetrix, Barbican Centre, Barbican, EC, 12.00
BOARD MEETINGS—
Finals:
Gleeson (M. J.)
High-Point Services
LWT
Natl Australia Bank
Wellcome
Interims:
[illegible]
DIVIDEND & INTEREST PAYMENTS—
[illegible]

FRIDAY NOVEMBER 14
COMPANY MEETINGS—
Morley (R. H.), Caroline Bank, 16 Austin Friars, EC, 12.00
Renishaw, Post House, Alverston, Avon, 12.00
BOARD MEETINGS—
Finals:
Barton Transport
London Entertainments
Town Centre Secs
Interims:
GT Global Recovery Inv Tst
Ge (Cecil)
Hartwells
Welpac
Whitbread Inv
DIVIDEND & INTEREST PAYMENTS—
Addison Consultancy 0.8p
Arbuthnot Dollar Income Trust Inc Pf 2.5 cts
Automated Security 0.66p
BETEC 0.65p
Bank of Scotland (Governor of) Flg Rate Notes $364.17
Bentalls 0.44p
Blackwood Hodge 0.5p
Blanchards 3p
Britannia Arrow 1.8p
Brunswick 14 cts
Derwent Valley 0.75p
Dom Hldgs 3.225p
Empire Stores (Bradford) 1.5p
Ferry Pickering 2.1p
Fogarty 1.6p
Folkes 0.35p. A 0.35p
Forsta Sparbanken Sub Fltg Rate Notes 1990 $182.08
Hasbro 2.25 cts
Keep Trust 2.25p
MacLellan (P. and W.) 0.7p
Macro 4 0.75p
Meat Trade Suppliers 3.55p
Merivale Moore 2p
Musterlin 1p
NMW Computers 2.5p
Pall 9.5 cts
Scholes (George H.) 15p
Scottish American Invest 4pcDb 2pc
Sintrom 0.75p
Westpool Invest Trust 1.513p
Worcester 2.2p

SATURDAY NOVEMBER 15
DIVIDEND & INTEREST PAYMENTS—
Abbott Laboratories 21 cts
Agricultural Mortgage Corpn 9½pcDb 1985-87 4¾pc
BOC 5½pcDb 1981-86 2¾pc. 6½pcDb 1985-90 3¼pc
Barclays Bank 8¼pcCapLn 1986-93 4⅛pc 16pcCapLn 2002-07 8pc
Beattie (James) 6¾pc1stMtDb 1986-90 3⅜pc
Birmingham District Council 11½pc 2012 5¾pc
Borg-Warner 25 cts
British Sidac 6pcDb 1985-90 3pc
Chase Manhattan 51.25 cts
Colgate-Palmolive 34 cts
Conversion 10pc 1996 5pc
Conversion 9½pc 2006 4¾pc
Ensign Trust 5pcDb (1955 or after) 2½pc
F and C Alliance Invest 6pcPf 2.1p
General and Comm Invest Trust 4pcDb 2pc
Hambros Invest Trust 5pcPf 1.75p
Inter-American Devpt Bank 9½pcLn 2015 4¾pc. New 9½pcLn 2015 5.583pc
Pacificorp 60 cts
Scottish Eastern Invest Trust 4pcDb 2pc. 4pcDb (Red) 2pc
Standard Life Assurance 5pc 2½pc
Treasury 3pc 1989 1½pc
Treasury 12¾pc 1995 6⅜pc
Tyne and Wear County Council 12pc 6pc

CONSTRUCTION CONTRACTS

Glyn Genin

A dirt road in the Kathmandu valley

Nepal road building study

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

The Asian Development Bank has awarded the contract for a major study of the prospects for investing in roads and airport in the Kingdom of Nepal to the London-based transport consultants TecnEcon.

The Asian Development Bank is looking for new investment opportunities in Nepal and the contract for the study, worth £250,000 ($350,000), was awarded to TecnEcon after open international competition.

TecnEcon has already worked for the ADB providing technical assistance on previous studies of transport in the Kingdom, and the latest project will build on this.

"It is essentially a project identification exercise to help the ADB find investment opportunities," said Mr Jeff Ody, TecnEcon's chairman.

"We will be looking at the need for new roads to help internal communications and also at ways of improving the maintenance of the existing roads, including improved maintenance techniques."

The study will also assess the need for improving Nepal's airports, and will include an analysis of environmental protection measures against erosion and deforestation.

TecnEcon have associated with consulting engineers Scott Wilson Kirkpatrick for the civil engineering and civil aviation aspects of the study, which will be completed in midsummer next year.

TecnEcon is also working with the Pakistan Government planning rural road schemes, and with the government of Malawi and consulting engineers Alexander Gibb planning an ODA financed road between the capital Lilongwe and Salima.

It is also preparing business plans for a container terminal in China, in conjunction withthe Port of London Authority.

Extension to hospital

JOHN LAING CONSTRUCTION has been selected by Wirral Health Authority to carry out the £2.5m construction of an extension to Clatterbridge Hospital in Bebington, Merseyside. The extension will consist of a two-storey medical ward block comprising 109 beds based on a standard nucleus design which will be modified to suit the accommodation requirements of the scheme. The accommodation will be linked to the existing corridor. Attached to the ward block will be a single storey X-ray and endoscopy unit. The contract is due for completion in September 1988.

IN BRIEF

SHEPHERD BUILDING SERVICE has won four management fee contracts from Leeds City Council worth a total over £4.25m. The projects involved are primary schools at Harehills and Burmantofts, an aged persons' home at Beeston and a restaurant and boathouse in the city's Roundhay Park.

★

Over £2.9m orders have been won by FAIRCLOUGH BUILDING. Work includes a £1m contract to extend and refurbish Exter College, Oxford. A six-floor extension will provide a lecture room, offices and 10 study bedrooms. For Essex County Council, Fairclough is building a £750,000 primary school at Harwich by altering and extending a secondary school. For North East Thames Regional Health Authority, Fairclough is building accommodation for mentally handicapped people, including a training centre, in the grounds of Saffron Walden Hospital, at a cost of £700,000. Another part of the AMEC group, Robert Watson & Co (Steelwork) has a £500,000 contract for the supply and erection of 450 tonnes of steelwork at the old Odhams Press buildings at Watford. The refurbished building will eventually be occupied by the ASDA-MFI Group.

★

HADEN YOUNG has been awarded five contracts worth £3.95m. The City office will install HVAC and plumbing services under a £750,000 engineering services contract awarded by Higgs and Hill for the refurbishment of offices at Dorland House, Lower Regent Street.

The Warrington office has received two engineering services contracts totalling £2.6m. In Barrow in Furness, Norwest Holst acting on behalf of the Northern Regional Health Authority has placed a mechanical and electrical engineering services installation contract for phase II of the Furness District General Hospital.

At the Novotel Hotel in Manchester, Shepherd Construction has placed a multi-service design and installation engineering services contract worth £1m.

On behalf of the National Mutual Trust, Percy Trentham has awarded a £500,000 engineering contract for the installation of HVAC and fire protection systems in Hertfordshire. In Huddersfield, J. Sainsbury has appointed Haden Young to design and construct HVAC and plumbing engineering services.

WORLD STOCK MARKETS

AUSTRIA

1986 High	1986 Low	Nov. 7	Price Sch
2,650	2,190	Credit'nst'lt pp	2,240
3,850	3,075	Goesser	3,230
16,000	12,700	Interunfall	13,300
21,750	11,000	Jungbunzlauer	14,300
2,475	1,950	Laenderbank	2,220
795	560	Perlmooser	625
211	150	Steyr Daimler	155
12,600	8,850	Veitscher Mag	10,000

BELGIUM/LUXEMBOURG

1986 High	1986 Low	Nov. 7	Price Frs.
3,600	2,290	B.B.L.	3,050
16,650	9,600	Banq. Gen. Lux.	16,300
17,000	9,400	Banq. Int.A.Lux.	15,150
14,500	8,250	Bekaert	10,500
4,660	2,640	Ciment CBR	3,910
195	120	Cockerill	149
3,240	1,662	Delhaize	2,900
4,940	3,580	EBES	4,750
17,350	10,425	Electrobel	14,925
2,700	1,890	Fabrique Nat	1,995
8,500	3,580	GB Inno BM	8,500
4,625	2,895	GBL (Brux)	3,850
6,800	4,310	Generale Bank	5,810
6,850	4,750	Gevaert	6,100
8,150	5,700	Hoboken	7,620
3,995	2,860	Intercom	3,780
18,000	10,100	Kredietbank	16,125
11,650	9,900	Pan Holding	10,975
9,700	6,050	Petrofina	9,460
29,150	17,200	Royale Belge	29,150
3,270	2,120	Soc. Gen. Belge	3,195
11,750	7,710	Sofina	11,200
8,920	6,050	Solvay	8,190
585	244	Stanwick Intl	250
6,770	4,675	Tractionel	6,480
9,050	5,300	UCB	9,000
6,200	3,705	Wagons Lits	5,670

FRANCE

1986 High	1986 Low	November 7	Price Frs.
1,811	1,473	Emprunt 4½% 1973	1,630
9,550	7,190	Emprunt 7% 1973	9,120
893	298	Accor	429
845	608	Air Liquide	670
718	608	BIC	624
2,350	1,610	Bongrain	2,230
1,467	909	Bouygues	1,260
4,430	2,730	BSN Gervais	4,320
2,600	1,368	CIT Alcatel	2,091
3,685	2,212	Carrefour	3,625
651	458	Club Mediter'n	615
1,386	872	Cie Bancaire	1,065
468	347.5	Cofimeg	407.9
2,525	1,721	Damart	2,155
4,175	2,152	Darty	4,175
1,885	1,050	Dumez S.A	1,799
1,688	877	Eaux (Cie Gen)	1,328
373	196	Elf-Aquitaine	313.3
3,405	2,000	Essilor	3,260
1,095	714	Gen.Occidentale	990
115.5	51.1	Imetal	60.1
1,615	745	Lafarge Coppee	1,319
3,850	2,805	L'Oreal	3,688
4,895	2,640	Legrand	4,895
350	169	Maisons Phenix	185
2,775	1,460	Matra S.A.	2,070
3,565	1,725	Michelin B	2,340
6,690	1,435	Midi (Cie)	1,568
2,650	1,735	Moet Hennessy	2,392
115	54.7	Moulinex	66
241	155.1	Nord Est	183.1
1,255	807	Pernod Ricard	1,013
832	481	Perrier	790
479.2	296	Petroles Fra.	434
1,250	612	Peugeot S.A.	1,100
738	417	Printemps (Au)	612
1,050	421	Radiotech	839
2,600	1,205	Redoute	2,245
1,799	1,105	Roussel-Uclaf	1,375
587	390	Sefimeg	484
1,490	1,100	Skis Rossignol	1,200
3,855	2,640	Telemec Elect	2,845
1,764	822	Thomson (CSF)	1,525
543	348	Valeo	517

AUSTRALIA

1986 High	1986 Low	Nov. 7	Price Aust. $
4.1	2.55	ACI Intl	4.1
16.6	10.3	Adelaide Steams	14.3
3.98	2.88	Amcor	3.96
6.3	4.4	ANZ Group	5.7
3.22	2.05	Ampol Pet	2.75
2.40	1.15	Ashton	2.3
3.55	2.1	Aust. Guarantee	3.30
3.70	2.45	Aust. Nat. Inds.	3.08
11.1	5.9	Bell Group	11.1
5.79	3.70	Bell Res	4.35
3.75	1.05	Bond Corp Hldgs	2.75
4.5	2.6	Boral	4.45
3.4	1.9	Bougainville	3.2
7.5	4.3	Brambles Inds	7.3
1.89	0.69	Bridge Oil	0.77
9.1	6.2	BHP	8.58
9	5.3	Burns Philip	9
8.30	5.48	CRA	7.92
3.78	2.60	CSR	2.96
6.6	2.7	Chase Corp	6.6
1.24	0.83	Claremont Pet	0.99
6.4	4.1	Coles Myer	5.7
2.62	1.80	Comalco "A"	2.62
0.35	0.10	Consolidated Pet	0.26
3.15	1.7	Costain Aust	3.0
5.12	2.0	Elders IXL	4.2
1.82	1.41	Energ Res	1.67
2.85	2.16	Gen. Prop. Trust	2.76
3.90	3.18	Hardie (James)	3.85
2.7	1.55	Hartogen Energy	2.45
7.7	4.85	Herald W'yTimes	7.66
2.92	2.12	ICI Aust	2.6
9.0	4.8	Industrial Equity	8.54xr
0.4	0.18	Jimberlana F.P.	0.28
0.84	0.55	Kia Ora Gold	0.65
8.2	4.9	Kidston Gold	5.14
10.45	5.74	Lend Lease	10.45
3.12	1.53	MIM	2.6
3.85	2.68	Mayne Nickless	3.3
6.6	4.0	Nat. Aust. Bank	6.5
36.6	9.02	News	36.6
3.85	2.4	Nicholas Kiwi	3.80
2.05	0.65	Noranda Pacific	2
2.85	1.70	North Bkn Hill	2.72
1.25	0.65	Oakbridge	0.74
3.8	2.27	Pacific Dunlop	3.6
3.4	1.7	Pancontinental	2.9
3.15	2.45	Pioneer Conc	3.15
3.18	2.00	Placer Pacific	2.8
5.26	2.02	Poseidon	5.2
1.97	1.34	Queensland	1.75
6.4	3.82	Reckitt& Colman	6.36
2.35	1.5	Repco	2.35
5.56	3.28	Santos	4.35
5.2	3.95	Smith (Howard)	4.75
4.16	2.18	TNT	3.85
6.7	5.2	Tooth	6.16
3.1	1.85	Vamgas	2.7

JAPAN

1986 High	1986 Low	Nov. 7	Price Yen
1,970	1,130	Ajinomoto	1,700
1,140	748	All Nippon Air	900
2,150	1,640	Alps Electric	1,980
919	725	Asahi Chem	749
1,410	890	Asahi Glass	1,260
991	691	Bank Tokyo	828
783	602	Bridgestone	655
850	527	Brother Inds	665
1,200	881	Canon	1,050
1,840	1,180	Casio Comp	1,490
1,440	921	Chugai Pharm	1,150
1,760	715	Daiei	1,220
1,740	1,460	Dai-Ichi Kan. Bk.	1,650
556	300	Dai Nippon Ink	450
2,000	1,180	Dai Nippon Ptg	1,700
1,720	841	Daiwa House	1,710
2,400	734	Daiwa Sec	1,550
2,000	1,330	Eisai	1,650
7,750	5,070	Fanuc	6,340
1,770	1,460	Fuji Bank	1,670
3,380	1,680	Fuji Film	3,080
2,070	898	Fujisawa	1,230
1,140	825	Fujitsu	1,010
610	324	F'urukawa Elect.	450
2,520	1,200	Green Cross	2,600
1,320	794	Heiwa Real Est	961
1,130	760	Hitachi	961
2,350	1,150	Hitachi Credit	1,690
1,400	969	Honda	1,230
2,680	1,000	Indl. Bk. Japan	1,830
650	150	Ishikawajima Hr.	441
410	310	Isuzu Motor	361
942	413	Itoh (C)	725
4,660	2,950	Ito. Yokado	3,890
13,700	5,600	JAL	9,060
1,680	965	Jusco	1,500
1,500	463	Kajima	1,190
1,740	986	Kao Corp	1,480
279	134	Kawasaki Steel	184
1,750	737	Kirin	1,340
237	153	Kobe Steel	159
561	450	Komatsu	495
808	585	Konishiroku	612
480	339	Kubota	356
1,280	750	Kumagai	1,090
4,960	3,310	Kyocera	4,200
590	311	Marubeni	474
2,950	1,540	Marui	2,500
548	352	Mazda Motor	370
914	535	Meiji Seika	785
1,910	1,160	MEI	1,770
1,760	1,430	M'bishi Bank	1,640
909	506	M'bishi Chem	665
1,490	589	M'bishi Corp	1,000
600	328	M'bishi Elect	412
2,800	1,070	M'bishi Estate	2,190
660	353	MHI	448
1,350	951	Mitsui Bank	1,070

CANADA

TORONTO

Prices at 2.30pm November 7

MONTREAL

Closing prices November 7

OVER-THE-COUNTER

Nasdaq national market, closing prices, November 7

Continued from Page 43

Stock	Sales (Hnds)	High	Low	Last	Chng
Prism	1017	2¾	2½	2½	− ⅛
PriceCo	28 1293	35¾	35	35⅜	− ⅛
PSSPub	20	14	13½	14	+ ¼
PrceTR	21	34	33½	34	+ ½
PrimvO .16 57	96	9¾	9⅝	9¾	+ ⅛
ProgBs	28	18⅝	18	18½	+ ½
ProgCs .06 14	970	30⅛	29¾	30	
ProsGp	209	9⅛	9	9	¼
ProtLife .70 11	x1030	20¼	19¾	19¾	− ¼
PrvLfe .84 8	221	25⅜	25	25	− ⅜
PgSdBs1.76 10	359	23⅝	23	23	− ⅜
PuritBs .20 17	23	31¼	30½	31¼	+ ¾
QMS 19	1488	15⅛	14⅝	15	+ ⅛
Quadrx	59	9⅝	9⅞	9⅛	− ¼
Quantm 10	216	18	17¾	18	+ ⅛

Stock	Sales (Hnds)	High	Low	Last	Chng
Shelbys .16 20	187	17¾	17½	17½	− ⅛
Shoneys .14 29	338	27	26⅝	26⅞	
ShonSo 14	755	14¼	14	14¼	
SigmAs .24 18	227	38¼	38	38¼	+ ¼
SiliconS	220	12⅝	12½	12½	− ⅛
Siliconx 21	44	12¾	12½	12¾	
SimAir 28	43	7⅛	6⅞	6⅞	− ⅛
Simpins .56 10	52	13⅝	13	13¼	+ ⅛
Sizlers 22	78	17¾	17¼	17¾	+ ½
SmthFs 11	617	23	22	22½	
Society 1.92 8	188	58¼	57¾	58¼	+ ½
SoctySv 21	343	25⅞	25⅝	25⅞	
SoftwA 14	974	16⅝	14⅞	16⅛	+ 1½
SonocP .80a 16	172	38	37¾	37¾	− ¼
SoundW 15	63	21½	21⅛	21½	+ ⅜

Stock	Sales (Hnds)	High	Low	Last	Chng
TycoTy	275	7½	7¼	7½	+ ¼
Tysons .04 25	437	26⅛	25¾	26⅛	+ ¼

U U

Stock	Sales (Hnds)	High	Low	Last	Chng
USLIC .80 9	196	24⅞	24	24½	− ⅛
UTL 17	21	17¾	17⅝	17⅝	
Ungmn	808	10¼	10	10	− ¼
Unifis 19	680	15⅝	15¼	15⅝	
Unimed	17	15	14¾	15	
UnFedl 4	864	17½	17⅛	17¼	− ¼
UnNatl 1.14 13	5	35¾	35½	35¾	+ ¾
UnPlntr 15	1095	38¾	38¼	38¼	
UnWarn 20	142	34	33¼	33¼	− ⅛
UACmc .04 35	x3422	16¾	16⅛	16¾	+ ⅜
UBArtz .72 15	377	32⅜	32¼	32¼	

Stock	Sales (Hnds)	High	Low	Last	Chng
WilmTr1.20 12	184	46¾	46½	46¾	− ¼
WilsnF	277	9⅝	9½	9⅝	
Windmr	183	5⅞	5¾	5¾	
WOW	484	25	24¼	25	+ ½
Worthgs 18	187	18¼	18⅛	18⅛	− ⅛
Wyman .80	350	19	18¾	19	− ¼
Wyse 11	1795	15⅛	14⅝	15⅛	+ ⅜

X Y Z

Stock	Sales (Hnds)	High	Low	Last	Chng
Xicor	1210	5⅝	5¼	5⅝	+ ⅛
Xidex 29	1595	14¾	14½	14½	− ¼
Xyvan 156	20	12½	12	12½	
YlowFs .62 15	723	40⅝	40⅜	40⅝	+ ⅛
ZonNtl .80 20	1378	24½	22⅞	23¾	− ¼
ZionUt 1.44 12	17	47½	46¾	47⅜	− ⅛
Zondvn 33	334	27½	27	27¼	

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

N. AMERICAN QUARTERLY RESULTS

CLARK EQUIPMENT
Lift trucks, construction machinery

Third quarter	1986 $	1985 $
Revenue	230.6m	230.0m
Op. net profits	†14.8m	†80.3m
Op. net per share	†0.79	†5.05
Nine months		
Revenue	717.6m	768.5m
Op. net profits	†42.8m	†69.8m
Op. net per share	†2.28	†4.40

† Loss

CONTINENTAL CORPORATION
Insurance

Third quarter	1986 $	1985 $
Revenue	1.5bn	1.3bn
Net profits	97.4m	12.8m
Net per share	1.54	0.17
Nine months		
Revenue	4.4bn	3.8bn
Net profits	*329.5m	109.0m
Net per share	5.48	1.94

* Includes $184m capital gains

EMERSON ELECTRIC
Electrical, electronic products

Fourth quarter	1985-86 $	1984-85 $
Revenue	1.26bn	1.16bn
Net profits	101.1m	97.3m
Net per share	1.39	1.32
Year		
Revenue	4.95bn	4.64bn
Net profits	408.9m	401.1m
Net per share	5.62	5.43

FPL GROUP
Electric utility

Third quarter	1986 $	1985 $
Revenue	1.17bn	1.26bn
Net profits	152.4m	137.6m
Net per share	1.19	1.15
12 months		
Revenue	4.14bn	4.22bn
Net profits	363.8m	380.4m
Net per share	2.85	3.29

GREYHOUND CORPORATION
Bus system, food

Third quarter	1986 $	1985 $
Revenue	882.0m	862.2m
Net profits	28.2m	27.4m
Net per share	0.82	0.55
Nine months		
Revenue	2.45bn	2.44bn
Net profits	85.1m	85.3m
Net per share	1.82	1.75

NATIONAL INTERGROUP
Steel producer

Second quarter	1986-87 $	1985-86 $
Revenue	1.04bn	595.0m
Net profits	†230m	16.9m
Net per share	†1.17	0.60
Six months		
Revenue	2.10bn	711.0m
Net profits	†222.4m	4.5m
Net per share	†1.25	†0.15

† Loss

ROCKWELL INTERNATIONAL
Military aircraft and electronics

Fourth quarter	1985-86 $	1984-85 $
Revenue	3.30bn	3.20bn
Net profits	161.8m	140.0m
Net per share	1.11	0.94
Year		
Revenue	12.30bn	11.30bn
Net profits	611.2m	595.3m
Net per share	4.12	4.00

ST PAUL COMPANIES
Insurance

Third quarter	1986 $	1985 $
Revenue	804.5m	653.0m
Net profits	54.9m	19.4m
Net per share	1.01	10.21
Nine months		
Revenue	2.33bn	1.92bn
Net profits	149.9m	37.8m
Net per share	3.20	0.94

† Loss

WEST POINT-PEPPERELL
Textiles

Fourth quarter	1985-86 $	1984-85 $
Revenue	409.2m	315.5m
Net profits	19.5m	9.1m
Net per share	1.34	0.65
Year		
Revenue	1.31bn	1.20bn
Net profits	54.8m	28.4m
Net per share	4.09	2.75

Closing prices, November 7

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued on Page 43

NYSE COMPOSITE CLOSING PRICES

Continued from Page 42

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
72¼	48⅝	Xerox	3	5.2	13	1750	58	56⅞	57¾	+⅝
58¼	54	Xerox pf5.45		9.5		40	57⅜	57	57⅜	+⅛
28¾	20¾	XTRA	.64	2.7		88	24¾	24	24	−½
18¾	13½	Yorkin n				170	18⅛	17¾	17⅞	+⅛
45¾	28¼	ZaleCp 1.40		3.3		432	43¾	42¼	42½	−¾
9½	2⅝	Zapata	.03i			298	2½	d	2¼	2⅜
43⅞	20¾	Zayre s	.32	1.2	18	19417	28⅞	27¼	27¼	−¾
17	9¾	Zemex	.40	3.5	12	15	11½	11¼	11⅜	−⅛
29⅞	16⅝	ZenithE				166	21⅞	21⅜	21⅜	−½
18¼	8	ZenLb s			70	6389	11¼	9⅝	11⅛	+1⅝
22⅜	12⅝	Zero s	.29	2.0	15	x15	14½	14⅜	14⅜	−¼
45¾	32¾	Zurnin 1.32		3.4	15	44	39	38⅝	38½	−½
10⅝	9¾	Zweig n				619	9⅞	9¾	9¾	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices November 7

OVER-THE-COUNTER

Nasdaq national market, closing prices, November 7

Continued on Page 41

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

News no longer upsets the dollar

By COLIN MILLHAM

SENTIMENT SURROUNDING the dollar has changed. Bad news no longer sends dealers rushing to sell the currency, and good news generally provides a further excuse to buy.

The result of the mid-term US elections, with the Republicans losing control of the Senate, was considered a major blow for President Ronald Reagan, but the foreign exchanges failed to react. On the other hand better economic data has led to forecasts the dollar will move outside its recent range, which has put a ceiling on the currency of around DM 2.0750, and will soon attack DM 2.10.

A cut in the Japanese discount rate at the end of October provided support for the dollar, because there is little expectation the US will follow in the immediate future.

Whether foreign demand at last week's US Treasury auctions was high enough to give further assistance was not clear. Almost the entire $29bn of three-year, 10-year and 30-year paper sold by the Treasury went to the New York district. The three-year notes were expected to attract almost wholly domestic interest, and this proved to be the case, but the US credit markets were hoping that there would be strong foreign bidding for the longer dated paper. The main area of foreign demand was expected to come from Japanese institutional investors and this was hard to judge.

About 98 per cent of the 10-year notes and 94 per cent of the 30-year bonds sold at auction were taken up by the New York district, which means the US investment banks such as Goldman Sachs; Merrill Lynch; Morgan Stanley and Salomon Brothers, but the unknown figure was how much of that paper had already been sold on, particularly to Japanese investors.

A dealer at a large US commercial bank put the figure of Japanese demand at the auction of $9.27bn of 30-year bonds at around $4bn. The result was not a disaster, but the retail market did not take it well. The average yield of 7.54 per cent was not as low as at one time hoped. The market was full of rumours in the early stages of Thursday's auction, and it was suggested Salomon Brothers were making a "bullet" bid for about 33 per cent of the 30-year bonds at a yield of 7.50 per cent, but this soon proved groundless, and dealers quickly revised their expectations to a figure fairly near the final outcome.

Apart from the mid-term elections and the Treasury auctions the other major event of the week for the market was Friday's October US unemployment. The unchanged rate of 7 per cent compared with forecasts of 6.8 per cent to 7 per cent, but a more encouraging factor for the dollar was a rise of 298,000 in non-farm employment, against expectations of 165,000 to 210,000.

The impact was muted however, and the US currency was unable to move up to a new trading range.

This was the only important economic news released last week. This week forecasters see a rise of about $8bn in today's September US consumer credit, largely because cut price finance deals encouraged a high level of car sales.

Friday will be a heavy day as far as US statistics are concerned. October retail sales are expected to fall about 4 per cent to 4.4 per cent, although Morgan Stanley has forecast a decline of 5.6 per cent, reflecting the drop in car sales as finance incentives have come to an end. Inflation is forecast to remain under control, with October retail prices rising a modest 0.1 per cent to 0.2 per cent. Industrial production for the same month is expected to show an equally modest increase of 0.2 per cent, but in the present circumstances these figures should be enough to keep a firm base under the dollar.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu November 7	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.4412	+0.76	+1.09	±1.5368
Danish Krone	7.81701	7.87603	+0.76	+1.09	±1.6403
German D-Mark	2.11083	2.09281	−0.85	−0.52	±1.1127
French Franc	6.87316	6.82785	−0.66	−0.33	±1.3659
Dutch Guilder	2.37833	2.36372	−0.61	−0.28	±1.5059
Irish Punt	0.764976	0.766932	+0.26	+0.59	±1.6683
Italian Lira	1476.95	1446.18	−2.08	−2.03	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Nov 7	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.426	2.945	232.5	9.608	2.453	3.328	2035	1.980	61.20
$	0.701	1	2.065	163.2	6.738	1.720	2.333	1427	1.388	42.90
DM	0.340	0.484	1	78.95	3.262	0.833	1.130	691.0	0.672	20.78
YEN	4.301	6.133	12.67	1000	41.32	10.55	14.31	8753	8.516	263.2
F Fr.	1.041	1.484	3.065	242.0	10	2.553	3.463	2118	2.061	63.70
S Fr.	0.408	0.581	1.201	94.80	3.917	1	1.357	829.8	0.807	24.95
H Fl.	0.301	0.429	0.885	69.87	2.887	0.737	1	611.6	0.595	18.39
Lira	0.491	0.701	1.447	114.3	4.721	1.205	1.635	1000	0.973	30.07
C $	0.505	0.720	1.487	117.4	4.852	1.239	1.681	1028	1	30.91
B Fr.	1.634	2.330	4.812	379.9	15.70	4.007	5.437	3325	3.235	100

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Nov. 7	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	10⅞-11	11-11⅛	11-11 1/16	11-11⅛	10 15/16-11 1/16	10 15/16-11 1/16
U.S. Dollar	5⅞-6	5⅞-6	5 15/16-6 1/16	5 15/16-6 1/16	5 15/16-6 1/16	6 1/16-6 3/16
Can. Dollar	8¼-8½	8¼-8½	8 5/16-8 7/16	8⅜-8¾	8½-8¾	8¾-9
D. Guilder	5¼-5⅜	5 5/16-5 7/16	5⅜-5½	5⅜-5½	5⅜-5½	5⅜-5½
Sw. Franc	1⅞-2	2½-2¾	3 1/16-3 3/16	3 7/16-3 9/16	3⅞-4	3⅞-4
Deutschmark	4½-4⅝	4 7/16-4 9/16	4 7/16-4 9/16	4⅝-4¾	4⅝-4¾	4⅝-4¾
Fr. Franc	7¼-7⅜	7¼-7⅜	7 5/16-7 7/16	7 11/16-7 13/16	7 15/16-8 1/16	7⅞-8⅛
Italian Lire	8-10	9⅝-10⅛	9⅞-10⅛	10⅛-10⅝	10¼-10½	9⅞-10¼
B. Fr. (Fin.)	7-7¼	7⅛-7⅜	7⅛-7⅜	7¼-7½	7 3/16-7 7/16	7 3/16-7 7/16
B. Fr. (Con.)	6⅞-7⅛	6⅞-7⅛	7-7¼	7-7¼	7⅛-7⅜	7⅛-7⅜
Yen	4 3/16-4 5/16	4 3/16-4 5/16	4 5/16-4⅜	4 5/16-4⅝	4 5/16-4⅝	4 5/16-4⅝
D. Krone	9¾-10¼	9½-10	9½-10	9¾-10¼	9¾-10¼	10¼-10⅝
Asian $ (Sing.)	6-6¼	6-6⅛	6-6⅛	5 15/16-6 1/16	5 15/16-6 1/16	6 1/16-6 3/16

Long-term Eurodollars: Two years 6 11/16-6 13/16 per cent; three years 7-7¼ per cent; four years 7½-7¾ per cent; five years 7¾-8 per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Nov. 7	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4245-1.4280	1.4255-1.4265	0.60-0.57c pm	4.92	1.75-1.70 pm	4.84
Canada	1.9758-1.9821	1.9795-1.9805	0.45-0.36c pm	2.45	1.21-1.06 pm	2.29
Netherlands	3.32-3.34	3.32¼-3.33¼	1⅝-1⅜c pm	5.41	4⅝-4¼ pm	5.33
Belgium	60.99-61.38	61.15-61.25	22-17c pm	3.82	59-48 pm	3.50
Denmark	11.05¼-11.11	11.06¼-11.07¼	1⅝-1⅛ore pm	1.15	3¾-2¾ pm	0.99
Ireland	1.0765-1.0860	1.0810-1.0820	0.17-0.28p dis	−2.50	0.50-0.80 dis	−2.40
W. Germany	2.94-2.95¼	2.94-2.95	1⅝-1⅜pf pm	6.11	4⅝-4½ pm	6.20

£ IN NEW YORK

Nov 7	Close	Previous Close
£ Spot	1.4305-1.4315	1.4265-1.4275
1 month	0.60-0.59 pm	0.59-0.58 pm
3 months	1.76-1.73 pm	1.75-1.72 pm
12 months	6.22-6.12 pm	6.20-6.10 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Nov. 7	Previous
8.30 am	69.2	69.5
9.00 am	69.2	69.4
10.00 am	69.3	69.3
11.00 am	69.3	69.4
Noon	69.2	69.4
1.00 pm	69.3	69.4
2.00 pm	69.3	69.3
3.00 pm	69.3	69.3
4.00 pm	69.4	69.5

CURRENCY MOVEMENTS

November 7	Bank of England Index	Morgan Guaranty Changes %
Sterling	69.4	−23.8
U.S. Dollar	112.5	+4.2
Canadian Dollar	77.6	−12.6
Austrian Schilling	131.7	+8.8
Belgian Franc	96.8	−6.1
Danish Krone	89.0	+1.6
Deutsche Mark	140.9	+18.8
Swiss Franc	164.1	+19.6
Guilder	129.5	+12.3
French Franc	70.2	−12.9
Lira	47.8	−15.9
Yen	206.7	+53.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

CURRENCY RATES

Nov. 7	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.835368	0.710441
U.S. Dollar	5.5	1.19065	1.01273
Canadian $	8.58	*	1.40486
Austrian Sch.	4	17.2906	14.7312
Belgian Franc	8	51.0342	43.4412
Danish Kroner	7	9.24659	7.87603
Deutsche Mark	3½	N/A	2.09281
Neth. Guilder	4½	2.77719	2.36372
French Franc	9½	8.02260	6.82785

MONEY MARKETS

Cautious optimism in London

LONDON WHOLESALE interest rates were slightly softer last week, but the yield curve was almost flat on money market rates from the overnight through to the year, suggesting there was little confidence in predicting the future trend.

The Autumn Statement by Mr Nigel Lawson, Chancellor of the Exchequer, left dealers rather confused. The gilt market reacted predictably to fears of a Government U-turn on economic policy, with long dated stocks showing losses of about £1 on Friday, after dealers had a chance to digest Thursday's news. Fears centred on the possibility of rising inflation and a weaker pound on the announcement that UK public spending in 1987-88 will total £148.6bn, a rise of £4.7bn from the figure published in the Budget.

UK clearing bank base lending rate 11 per cent since October 15

According to a survey of 11 economists working for London based market makers, conducted by Money Market Services, before Mr Lawson's speech, public spending was forecast to rise by only £1.5bn from the Budget projection. There was no surprise in the Chancellor's forecast of 3.75 per cent inflation in the fourth quarter of 1987, but the economists surveyed came out with a median figure of 4.6 per cent when asked what the figure would be, and this was before they knew the higher level of public spending. On the other hand the Government's estimate of a current account deficit of £1.5bn in 1987 was considered realistic.

The alternative way of looking at the Chancellor's figures was to say that if higher spending on health, education and housing made it more likely the Conservatives would retain power in a forthcoming general election then the City was reasonably content.

Earlier in the week an opinion poll taken by Harris Research Centre for TV-am showed the Tories in the lead over Labour. Sentiment was also encouraged by higher oil prices, on rumours of production cut backs by Saudi Arabia, and suggestions that Kuwait is to return fixed prices.

Although Mr Lawson's statement caused general nervousness and uncertainty, a clearing bank was optimistic enough on Friday to predict base rates will fall within the next few weeks.